DS-354

MARCH 1975

DAIRY Situation

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

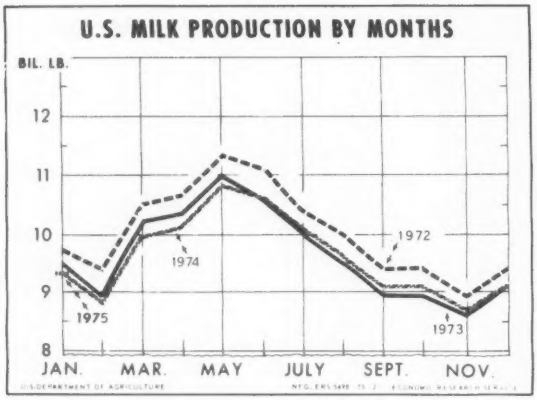
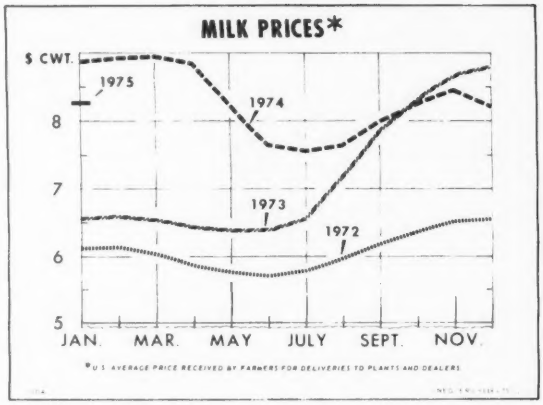


Figure 1



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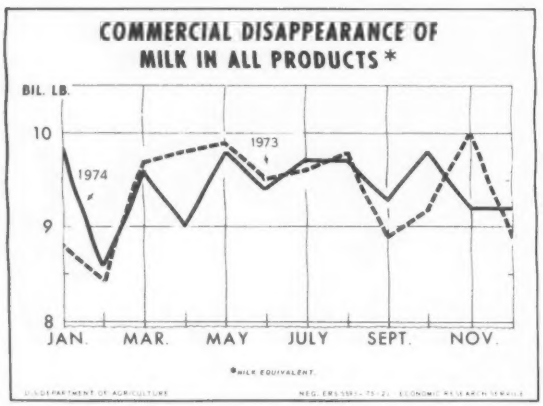

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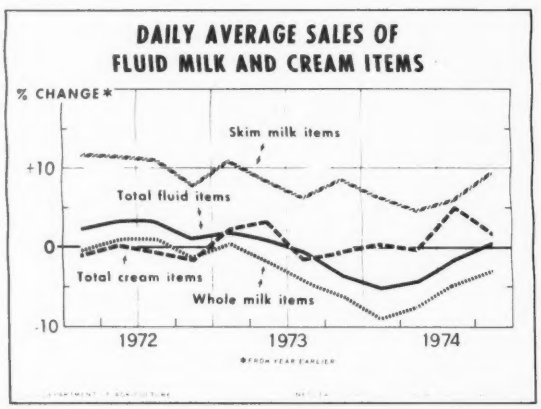

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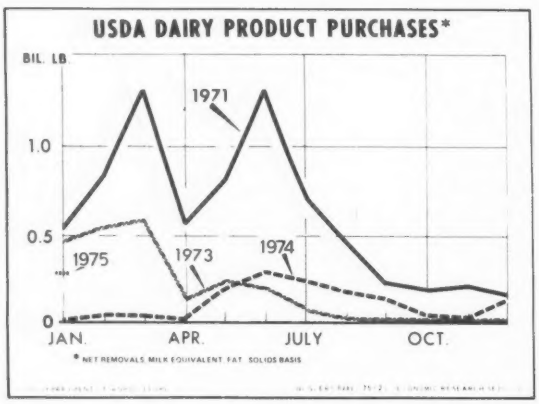

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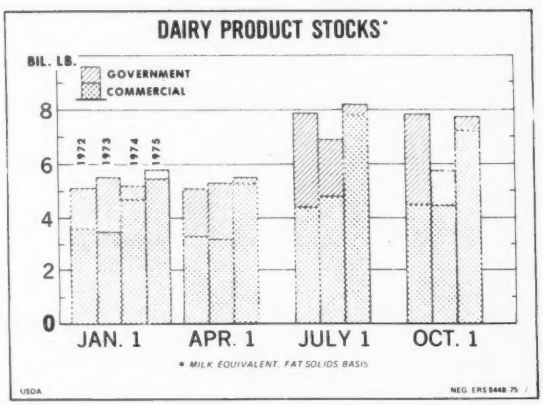

Figure 6

In This Issue

	Page
January Milk Output Even Culling reduced . . . Slaughter cow prices low . . .Feeding off . . . Large supply of herd replacements . . .Output to hold steady	5
1974 Output Unchanged Cow numbers increase last half . . . Output per cow up slightly . . . Feed expensive	7
Milk Prices Up Slightly Price support raised . . . Farm prices a little stronger . . . Wholesale prices near support . . .Retail prices rise slowly	12
Manufactured Products Take More Milk Butter-nonfat dry milk output up sharply . . . American cheese down . . . CCC buying more products . . . Commercial stocks remain large . . . CCC nonfat dry milk holdings increase	16
Dairy Sales Gain Slightly Butter use still strong . . . Cheese sales weaken . . . Nonfat dry milk use down sharply . . . Fluid sales now rising . . . Early 1975 dairy sales may hold steady	17
Per Capita Consumption Drops Use per person at 543 pounds in 1974 . . . Sales up, donations drop	20
Dairy Imports Slacken 1974 imports below 1973, but above average . . . Exports small . . . Nonfat dry milk programmed for foreign aid . . . World output up 1½% in 1974	26
Special Article The Impact of Dairy Imports on the U.S. Dairy Industry	31
List of Tables	36

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SUMMARY

Milk cow numbers increased from July through December 1974, the first such rise since 1953. Dairy farmers have reduced herd culling substantially in response to low slaughter cow prices, and the lack of off-farm employment alternatives likely has kept more dairy farmers in business.

Milk production held just above year-earlier levels in January. Farmers have cut back grain and concentrate feeding, thus limiting gains in output per cow. However, low slaughter cow prices held the drop from a year ago in milk cow numbers to less than 1 percent.

Milk output may remain near year-earlier levels in coming months—perhaps through the first half of 1975. Production later this year will depend to a large degree on feed prices, on milk prices, on the cattle market, and on the general economic picture. If feed prices do moderate, some increases in milk production may occur later on this year.

Milk production on U.S. farms held about steady at 115.4 billion pounds in 1974, following a 4 percent drop the previous year. After dropping in 1973, milk production per cow rose again last year by about 1½ percent, still below the long-term upward trend. Declines from a year earlier in milk cow numbers slackened during 1974, bringing the drop to about 1½ percent for the whole year.

USDA raised the support level for manufacturing milk to $7.24 per 100 pounds effective January 4, 1975, up 10 percent from the previous $6.57 level. The

The *Dairy Sitation* is published in March, May, July, September, and December

new support is 80 percent of the December parity equivalent price and 89 percent of the parity equivalent price as of the beginning of the marketing year (April 1, 1974). The new support price will remain in effect through the next marketing year which ends with March 1976. Support purchase prices for butter, American cheese, and nonfat dry milk were upped accordingly. In a companion action, USDA amended the pricing provisions of all Federal orders to bring Class I prices for February and March into line with the higher price support levels.

Farm prices for all milk rose slightly in January, but at $8.29 per 100 pounds averaged almost 7 percent under January 1974 prices. Manufacturing milk prices in January picked up with the boost in price supports, following declines in December. Farm milk prices early this year may average slightly above fourth quarter 1974 levels, but will remain well below year-earlier record highs.

Cash receipts from dairying dropped below a year earlier in the fourth quarter. Meanwhile, production costs continued to climb by a fifth and many dairy farmers reported being caught in a severe cost-price squeeze. In 1974, farm cash receipts from milk and cream marketings totaled some $9.4 billion, up 16 percent from 1973's $8.1 billion. Gross dairy income could show smaller gains during 1975.

Wholesale dairy product prices rose in early January following the price support increase. Market prices are likely to hold close to CCC purchase prices through this summer's flush production months.

After dropping last summer, retail dairy prices have shown only moderate seasonal rises. Prices at retail in December 1974 were about 7 percent above a year earlier, about half the growth in all food prices. However, for all of 1974, retail dairy prices averaged 19 percent higher. We can expect to see some further rise in retail dairy prices, but certainly it will be more moderate than in early 1974.

Commercial disappearance of milk in all dairy products increased slightly in 1974. Butter sales closed out last year on a strong note, but cheese showed some weakness. Nonfat dry milk sales declined sharply as users cut back its use, reduced their inventories, and looked to substitutes. Fluid milk sales in major urban markets pulled a little above year-earlier levels by late 1974, following declines of 5 to 6 percent early in the year. Dairy sales may hold close to year-earlier levels in coming months. Retail dairy prices likely will rise more slowly than food prices generally. However, demand for dairy products could be weakened by declining consumer purchasing power, high unemployment rates, and inflationary pressures.

USDA removals of dairy products under the price support program have been running above year-earlier levels since last May. Butter and cheese purchases picked up in January with the higher support levels, while nonfat dry milk removals continue sizable.

Commercial dairy product stocks entering 1975 totaled 5.6 billion pounds milk equivalent, up a sixth from a year ago. American cheese stocks accounted for most of the rise, with nonfat dry milk holdings also up substantially. Government stocks of butter and cheese remain relatively small, but CCC nonfat dry milk stocks have increased substantially.

Dairy imports have slackened to more normal levels after mid-1974. Imports for 1974 totaled around 2.9 billion pounds milk equivalent, down from 3.9 billion pounds in 1973, but well above the average levels of recent years. Exports of most dairy products remain small, but sizable quantities of CCC-owned nonfat dry milk are being programmed for export under foreign aid programs.

DAIRY SITUATION

SITUATION AND OUTLOOK

PRODUCTION

Milk Production Steady

Milk output in January held just above a year ago. However, increases in output have slackened since the 3 percent rise of last September. Relatively high feed prices have limited concentrate feeding and output per cow, although herd culling has been reduced because of the continued low slaughter cow prices.

Milk output per cow rose less than 1 percent in January, the smallest year-to-year gain since April of last year. Farmers have cut back feeding of high-priced grain and concentrates in response to the generally unfavorable milk-feed price relationships of recent months. On January 1, dairy farmers reported feeding 2½ percent less grain and concentrates to dairy cows than a year earlier.

Milk cow numbers in early 1975 were down less than 1 percent from January a year ago, compared with a 3 percent drop entering 1974.

Production increases early this year were generally centered in the Northeast, Appalachian and Mountain regions. Of the 34 States reporting, half showed production gains in January. Production dropped slightly in Wisconsin, following gains of 3½ percent last fall. Minnesota's output also was down in January, although production in the other major dairy States—California, New York, and Pennsylvania—was still up around 2 percent.

The 1975 Outlook

These factors will be influencing milk production during the rest of this year.

(1) Although feed prices have been dropping some in recent weeks, dairymen will still be faced with relatively expensive feed in coming months, at least until the 1975 crop picture becomes clearer. Dairy farmers have already cut back on feeding high-cost grain and concentrates.
(2) The January milk-feed price ratio improved a bit since last fall, but is still relatively unfavorable to heavy grain and concentrate feeding. Milk-feed price relationships may not show a great deal of improvement in coming months.
(3) Hay prices are up from last year and may well continue strong. Hay usage has been running above a year ago, and January 1 hay stocks were down materially.
(4) Herd replacements were in good supply at the beginning of the year, running almost 37 per 100 milk cows.
(5) Production costs other than feed are likely to continue showing strong increases in 1975.
(6) Slaughter cow prices will probably remain at relatively low levels, even though prices may advance somewhat from this winter's lows. During January and early February, Utility cows at Omaha averaged about $17 per 100 pounds, the lowest since 1969. Prices could advance past $20 in the spring.
(7) The value of dairy cows has dropped almost a fourth during the past year, averaging $403 per head in January.
(8) Farm milk prices rose slightly from December levels with the boost in support levels. However, January manufacturing milk prices were averaging under the $7.24 support level.
(9) The general economy continues to be gripped by recession. The unemployment rate rose to 8.2 percent in January and is likely to remain high in coming months. This means limited off-farm employment opportunities for dairy farmers and dairy labor.

Under this set of conditions, milk production may remain close to year-earlier levels in coming months—perhaps through the first half. Farmers have cut back on feeding grain and concentrates, and they will probably continue to do so until some further improvement in milk-feed price relationships becomes evident. On the other hand, the drop in cow numbers will probably continue small. Low slaughter cow prices and the lack of viable alternatives will still discourage herd culling.

Output later this year will depend in large part on 1975 crop conditions and subsequent feed prices, on milk prices, on the cattle market, and on the nonfarm alternatives available to dairymen. Slaughter cow prices are expected to show only small improvement from current low levels throughout 1975, and unemployment rates will probably stay relatively high. These factors would be expected to limit incentives for heavy herd culling, causing declines in cow numbers to be relatively small throughout the year.

Table 1.--Milk production, milk per cow, and milk cows on farms, by months, 1968-74, with comparisons

Month	1968	1969	1970	1971	1972	1973	1974 1/	Change from year earlier: 1973	Change from year earlier: 1974
	Million pounds							-- Percent --	
Milk production 2/									
January	9,497	9,408	9,403	9,573	9,720	9,525	9,287	-2.0	-2.5
February	9,194	8,834	8,852	8,994	9,391	8,932	8,765	-4.9	-1.9
March	10,191	10,015	10,099	10,220	10,452	10,176	9,988	-2.6	-1.8
April	10,445	10,237	10,289	10,423	10,566	10,298	10,122	-2.5	-1.7
May	11,217	11,038	11,042	11,159	11,268	10,952	10,841	-2.8	-1.0
June	10,777	10,710	10,703	10,815	10,946	10,532	10,563	-3.8	+ .3
July	10,190	10,121	10,209	10,285	10,442	10,014	10,139	-4.1	+1.2
August	9,612	9,643	9,733	9,860	9,978	9,489	9,690	-4.9	+2.1
September	9,088	9,143	9,203	9,328	9,431	8,877	9,140	-5.9	+3.0
October	9,123	9,091	9,278	9,444	9,437	8,948	9,125	-5.2	+2.0
November	8,742	8,669	8,832	9,004	8,911	8,590	8,669	-3.6	+ .9
December	9,149	9,199	9,319	9,427	9,362	9,052	9,087	-3.3	+ .4
Total	117,225	116,108	116,962	118,532	119,904	115,385	115,416	-3.8	*
Milk per cow 2/									
	Pounds							-- Percent --	
January	725	750	778	804	826	821	824	-0.6	+0.4
February	705	707	733	756	799	773	779	-3.3	+ .8
March	784	805	838	860	890	883	889	- .8	+ .7
April	806	825	855	878	900	898	901	- .2	+ .3
May	869	893	919	942	961	957	967	- .4	+1.0
June	838	870	892	913	935	924	943	-1.2	+2.1
July	796	824	852	869	894	881	905	-1.5	+2.7
August	753	788	813	834	855	837	865	-2.1	+3.3
September	715	749	770	790	809	784	815	-3.1	+4.0
October	720	747	777	800	810	791	815	-2.3	+3.0
November	693	714	740	763	766	760	774	- .8	+1.8
December	728	759	782	800	805	802	810	- .4	+1.0
Total 3/	9,135	9,434	9,747	10,009	10,250	10,114	10,286	-1.3	+1.7
Milk cows on farms 4/									
	Thousands							-- Percent --	
January	13,091	12,536	12,087	11,908	11,773	11,597	11,267	-1.5	-2.8
February	13,048	12,492	12,070	11,889	11,760	11,556	11,249	-1.7	-2.7
March	12,999	12,446	12,053	11,881	11,747	11,518	11,241	-1.9	-2.4
April	12,953	12,403	12,034	11,867	11,739	11,471	11,229	-2.3	-2.1
May	12,905	12,355	12,019	11,852	11,721	11,439	11,216	-2.4	-1.9
June	12,853	12,315	11,999	11,841	11,703	11,404	11,206	-2.6	-1.7
July	12,808	12,276	11,986	11,832	11,685	11,369	11,205	-2.7	-1.4
August	12,762	12,236	11,969	11,822	11,672	11,343	11,207	-2.8	-1.2
September	12,710	12,199	11,956	11,811	11,659	11,316	11,208	-2.9	-1.0
October	12,665	12,169	11,945	11,799	11,650	11,306	11,199	-3.0	- .9
November	12,614	12,140	11,932	11,794	11,639	11,298	11,207	-2.9	- .8
December	12,571	12,113	11,916	11,785	11,624	11,293	11,212	-2.8	- .7
Annual av.	12,832	12,307	12,000	11,842	11,698	11,409	11,221	-2.5	-1.6

1/ Preliminary.
2/ Excludes milk sucked by calves.
3/ May not add due to rounding.
4/ Excludes heifers not yet fresh.

*Less than .05 percent.

Current planting intentions, coupled with favorable weather, could boost 1975 feed grain and soybean crops and moderate feed prices later on this year. Under these conditions, output per cow may show more normal gains and we could see some increase in milk output in the second half of 1975.

On the other hand, short crops of feed grains and soybeans again in 1975 would mean continued high feed prices which could forestall any recovery in production later this year. The impact of feed prices would be felt primarily on feeding rates and consequently on milk output per cow.

For all of 1975, we may see milk output totaling slightly above 1974's level, if dairy ration costs moderate later this year.

1974 Milk Summary

Milk production in 1974 held about steady at 115.4 billion pounds, following a 4 percent drop the previous year (table 1). Down entering the year, 1974 output moved above a year earlier during June to December. However, the rate of increase had slackened by year's end from the 3 percent September gain.

Declines in output during 1974 were generally centered in the Northern Plains and Corn Belt regions, hardest hit by last summer's drought. Output in the important Lake States held about stable. Production rose about 2 percent in the Pacific States and was also up almost 2 percent in the Northeast, following declines totaling almost 7 percent during the past 2 years (tables 2 and 3).

After declining in 1973, milk output per cow rose by 1½ percent (172 pounds) to 10,286 pounds last year. However, 1974's gain was less than the 2½ to 3 percent annual average increases of the previous decade. A deteriorating milk-feed price ratio held down grain feeding rates, thus limiting gains in output per cow. Farmers had been able to achieve substantial gains in milk output per cow in previous years in large part by sharply increasing grain and concentrate feeding.

Last year, the U.S. milk herd averaged 11.2 million cows, down about 1½ percent from 1973.

Milk Production Revised Upward in 1974

Milk production figures in 1973 and 1974 have been revised by the Statistical Reporting Service, based on an annual review of more complete production and utilization data.

Milk output in 1974 was raised almost 0.6 billion pounds, based primarily on the increase in milk cow

Table 2.--Production, price, and income changes by production regions, 1974

Production regions	1974 change from year earlier				
	Milk production	Milk cow numbers 1/	Milk per cow	Farm milk prices 2/	Cash receipts from dairying 3/
	Percent				
Northeast	+1.5	+0.5	+1.0	+13.3	+12.4
Lake States	-.1	-1.0	+1.0	+14.4	+12.8
Corn Belt	-2.8	-3.2	+.4	+16.2	+12.0
Northern Plains	-3.7	-3.3	-.4	+14.2	+10.5
Appalachian	+.1	-4.7	+5.0	+17.9	+16.0
Southeast	+.4	-3.8	+4.3	+19.7	+20.7
Delta States	-1.6	-5.5	+4.2	+15.6	+15.9
Southern Plains	+2.1	-2.3	+4.5	+13.6	+14.4
Mountain	+1.1	0	+1.1	+17.1	+16.4
Pacific	+1.7	+.1	+1.7	+19.7	+24.5
United States	4/	-1.6	+1.7	+16.2	+16.0

1/ Average number during the year.
2/ Prices received by farmers for all milk sold to plants.
3/ Cash receipts to farmers from milk and cream marketings.
4/ Less than .05 percent increase.

Table 3.--Milk: Production by production regions, 1970-74, with comparisons

State and region	1970	1971	1972	1973	1974 1/	1974	
						As percent of U.S. total	Change from year earlier
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Pct.	Pct.
Maine	619	629	638	614	615	0.5	+0.2
New Hampshire	356	359	353	337	333	.3	-1.2
Vermont	1,970	2,025	2,039	1,948	1,950	1.7	+ .1
Massachusetts	658	658	629	595	594	.5	- .2
Rhode Island	75	70	69	64	63	.1	-1.6
Connecticut	661	660	643	614	613	.5	- .2
New York	10,341	10,431	10,306	9,728	9,822	8.5	+1.0
New Jersey	730	684	645	575	551	.5	-4.2
Pennsylvania	7,124	7,155	7,031	6,718	6,971	6.0	+3.8
Delaware	130	133	132	128	132	.1	+3.1
Maryland	1,560	1,564	1,537	1,464	1,490	1.3	+1.8
NORTHEAST	24,224	24,368	24,021	22,785	23,134	20.0	+1.5
Michigan	4,602	4,796	4,966	4,636	4,588	4.0	-1.0
Wisconsin	18,435	18,848	19,226	18,442	18,362	15.9	- .4
Minnesota	9,636	9,618	9,580	9,271	9,382	8.1	+1.2
LAKE STATES	32,673	33,262	33,772	32,349	32,332	28.0	- .1
Ohio	4,420	4,488	4,573	4,267	4,195	3.6	-1.7
Indiana	2,382	2,430	2,454	2,329	2,275	2.0	-2.3
Illinois	2,850	2,795	2,838	2,717	2,596	2.2	-4.5
Iowa	4,670	4,577	4,400	4,180	3,947	3.4	-5.6
Missouri	3,012	2,999	3,025	2,992	3,008	2.6	+ .5
CORN BELT	17,334	17,289	17,290	16,485	16,021	13.9	-2.8
North Dakota	1,065	1,023	994	1,044	1,055	.9	+1.1
South Dakota	1,533	1,557	1,540	1,569	1,518	1.3	-3.3
Nebraska	1,566	1,569	1,610	1,542	1,477	1.3	-4.2
Kansas	1,740	1,688	1,629	1,505	1,403	1.2	-6.8
NORTHERN PLAINS	5,904	5,837	5,773	5,660	5,453	4.7	-3.7
Virginia	1,749	1,751	1,760	1,690	1,699	1.5	+ .5
West Virginia	374	363	345	333	333	.3	0
North Carolina	1,485	1,500	1,537	1,524	1,534	1.3	+ .7
Kentucky	2,471	2,480	2,530	2,330	2,370	2.1	+1.7
Tennessee	2,123	2,122	2,147	1,946	1,892	1.6	-2.8
APPALACHIAN	8,202	8,216	8,319	7,823	7,828	6.8	+ .1
South Carolina	512	516	518	497	503	.4	+1.2
Georgia	1,182	1,188	1,235	1,168	1,194	1.0	+2.2
Florida	1,641	1,785	1,867	1,843	1,902	1.6	+3.2
Alabama	816	819	820	785	710	.6	-9.6
SOUTHEAST	4,151	4,308	4,440	4,293	4,309	3.7	+ .4
Mississippi	1,049	1,011	993	950	907	.8	-4.5
Arkansas	685	698	728	706	709	.6	+ .4
Louisiana	1,089	1,129	1,132	1,062	1,059	.9	- .3
DELTA STATES	2,823	2,838	2,853	2,718	2,675	2.3	-1.6
Oklahoma	1,250	1,260	1,235	1,140	1,137	1.0	- .3
Texas	3,065	3,239	3,340	3,280	3,378	2.9	+3.0
SOUTHERN PLAINS	4,315	4,499	4,575	4,420	4,515	3.9	+2.1
Montana	326	334	334	312	294	.3	-5.8
Idaho	1,490	1,550	1,663	1,657	1,555	1.3	-6.2
Wyoming	140	135	135	130	123	.1	-5.4
Colorado	856	885	880	854	866	.7	+1.4
New Mexico	304	312	326	318	338	.3	+6.3
Arizona	585	620	640	737	810	.7	+9.9
Utah	819	840	874	866	922	.8	+6.5
Nevada	142	141	143	144	167	.1	+16.0
MOUNTAIN	4,662	4,817	4,995	5,018	5,075	4.4	+1.1
Washington	2,091	2,230	2,307	2,338	2,312	2.0	-1.1
Oregon	970	1,008	1,005	1,008	1,004	.9	- .4
California	9,457	9,710	10,400	10,332	10,601	9.2	+2.6
PACIFIC	12,518	12,948	13,712	13,678	13,917	12.1	+1.7
Alaska	19	17	18	18	18	2/	0
Hawaii	137	133	136	138	139	.1	+ .7
UNITED STATES	116,962	118,532	119,904	115,385	115,416	100.0	2/

1/ Preliminary. 2/ Less than 0.05 percent.

numbers. Milk cow numbers at the end of 1974 were revised upward by over 100,000 head. Estimates of output per cow were trimmed slightly. Revisions for 1973 were more moderate with production lowered about 0.2 billion pounds.

Milk Cows Drop Less Than 1%

The annual livestock inventory showed 11.2 million milk cows on U.S. farms at the beginning of 1975, down only 0.6 percent from a year earlier. This followed a drop of some 3 percent at the start of 1974 (table 4).

The drop in milk cow numbers slackened appreciably during 1974, and cow numbers actually increased slightly during the last half of the year, the first such gain since 1953 (figure 7). Farmers have significantly reduced herd culling because of low slaughter cow prices. Also, the lack of viable nonfarm and farm employment alternatives likely has kept more dairy farmers in business than might otherwise have occurred.

Dairy cow numbers increased in the Northeast and Mountain regions and held about the same in the Lake States, although Wisconsin counted 1 percent more cows. A total of 15 States reported more cows than last year.

Replacement stock continues high. Heifers (500 pounds and over) kept for milk cow replacements totaled around 4.1 million head, up 4 percent from a year ago. The ratio of dairy replacement stock to milk cows was almost 37 per 100 cows, up from 35 a year earlier and higher than in recent years. The large number of replacements likely was a factor in the second half increase in milk cow numbers and will help to moderate drops in cow numbers this year.

Milk cows and replacements, 1972-75

Month and year	Milk cows	Replacement heifers, 500 pounds and over	
		Number	Per 100 cows
	1,000	*1,000*	*Number*
1972			
January 1	11,778	3,828	32.5
July 1	11,696	N.A.	N.A.
1973			
January 1	11,624	3,874	33.3
July 1	11,387	3,918	34.4
1974			
January 1	11,286	3,942	34.9
July 1	11,191	3,900	34.8
1975			
January 1	11,217	4,095	36.5

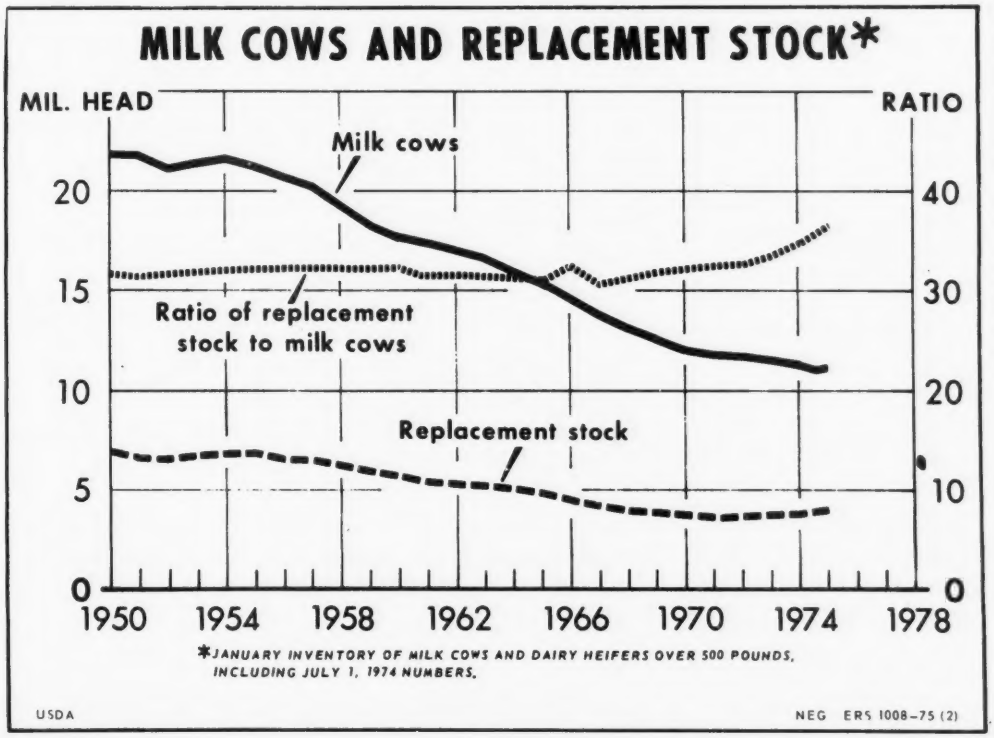

Figure 7

Table 4.--Milk production and factors affecting supply, United States, selected years, 1950-75

Year	Milk cattle on farms, January 1 1/			Milk cows on farms, average during year	Milk production		Prices received by farmers, 1967=100	
	Milk cows and heifers that have calved	Milk cow replacements; heifers 500 pounds and over			Per cow	Total	Dairy products	All farm products
		Total	Per 100 cows					
	Thou.	Thou.	No.	Thou.	Lb.	Mil. lb.		
1950	22,000	6,945	31.6	21,944	5,314	116,602	81	102
1955	21,320	6,832	32.0	21,044	5,842	122,945	81	91
1960	17,650	5,686	32.2	17,515	7,029	123,109	84	94
1965	15,380	4,780	31.1	14,953	8,305	124,180	85	98
1966	14,490	4,450	30.7	14,071	8,522	119,912	96	105
1967	13,725	4,215	30.7	13,415	8,851	118,732	100	100
1968	13,115	4,080	31.1	12,832	9,135	117,225	104	103
1969	12,550	3,990	31.8	12,307	9,434	116,108	109	108
1970	12,091	3,880	32.1	12,000	9,747	116,962	113	110
1971	11,909	3,843	32.3	11,842	10,009	118,532	116	112
1972	11,778	3,828	32.5	11,698	10,250	119,904	120	126
1973	11,624	3,874	33.3	11,409	10,114	115,385	140	172
1974 2/	11,286	3,942	34.9	11,221	10,286	115,416	160	183
1975 2/	11,217	4,095	36.5					

Year	Average prices received by farmers per 100 pounds					Parity prices per 100 pounds 3/		
	All milk, wholesale	Milk, eligible for fluid market	Milk, manufacturing grade	Bottling milk 4/	Milkfat in cream 5/	All milk, wholesale	Milkfat in cream 5/	Equivalent for manufacturing milk
	Dol.	Dol.	Dol.	Dol.	Ct.	Dol.	Ct.	Dol.
1950	3.89	4.36	3.16	4.86	62.0	4.32	69.2	3.82
1955	4.01	4.50	3.15	5.18	57.8	4.71	74.1	3.94
1960	4.21	4.69	3.25	5.48	60.5	5.01	74.1	4.01
1965	4.23	4.63	3.34	5.39	61.1	5.53	79.2	4.31
1966	4.81	5.17	3.97	5.82	67.2	5.73	82.1	4.47
1967	5.02	5.43	4.06	6.20	68.2	5.88	84.0	4.62
1968	5.24	5.67	4.22	6.50	68.4	6.06	86.1	4.79
1969	5.49	5.87	4.45	6.70	68.9	6.49	91.5	5.15
1970	5.71	6.05	4.70	6.94	70.0	6.87	95.3	5.49
1971	5.87	6.19	4.86	7.12	69.1	7.21	99.1	5.79
1972	6.07	6.38	5.08	7.26	67.5	7.70	103.0	6.21
1973 2/	7.14	7.42	6.20	N.A.	67.4	8.64	113.0	7.01
1974 2/	8.30	8.64	7.16	N.A.	62.3	9.88	124.0	8.12

1/ Prior to 1965, estimated by Livestock Section, ERS.
2/ Preliminary.
3/ At beginning of marketing year.
4/ Dealers' average buying price for milk used in fluid products.
5/ Cents per pound.

Feed Prices Ease a Little; Still Relatively High

Domestic feed grain use has declined sharply in recent months as the livestock and poultry industries cut back use in response to short supplies and high prices. Disappearance of feed grains fell 18 percent from a year ago in October-December, following a 13 percent drop in the previous quarter. Exports have also been running below a year earlier. But reductions in feed grain usage must continue in order to stretch supplies until the 1975 crop harvests next summer and fall. Total feed grain supplies in the 1974/75 grain marketing year are 21 percent smaller than last season. As a result of smaller disappearance, feed grain prices have eased from last autumn's highs. Except for a couple of shortlived runups, corn prices at Chicago have generally declined from the peak $3.96 per bushel late last July to mid-February levels of around $3.00. But as supplies are used up, substantial price fluctuations are possible.

Domestic use of high-protein feed is also down this year, but not as much as feed grains. In October-December, disappearance of soybean meal, our major high-protein feed, was down 6 percent chiefly because of unfavorable livestock-feed price relationships. It appears that the use of soybean meal was heavy in relation to grain and that it could have been used for energy as well as protein. However, soybean meal supplies are likely to be down about a tenth in the current marketing year. Soybean meal prices are down from earlier in the season and are competitively priced with feed grains and urea. Meal prices (44 percent protein) at Decatur declined from $168 per ton last October to around $120 by mid-February and were about $35 below a year ago.

Reflecting these lower corn and soybean meal prices, dairy ration prices have eased a little in recent months. Nationally, farmers paid $148 per ton for 16 percent protein dairy ration in January, down from $151 last November, but still 10 percent above year-earlier high levels. Dairy rations are likely to continue relatively expensive in coming months.

The milk-feed price ratio (pounds of feed equal in value to 1 pound of milk) improved somewhat in January to 1.25, but is still below a year ago and is generally unfavorable to heavy grain and concentrate feeding by dairy farmers (figure 8). Milk-feed price relationships are not likely to show much improvement at least through the first half of this year.

During May-December 1974, hay disappearance hit a record high 67 million tons, some 3 percent above a year earlier. Coupled with lower production in 1974, this pulled January 1 hay stocks down around 9 percent from the previous year. Because of high grain and concentrate prices, livestock producers were using more roughage in relation to grain and other concentrates. Also, poor pastures last summer and fall in some areas called for greater supplemental feeding. As a result, hay prices have been strong throughout 1974 and into 1975. Averaging $67 per ton nationally in January, baled alfalfa hay was 2 percent above last January and about 45 percent over the price of 2 years ago.

Milk-feed price ratio[1]

Month	1973	1974	1975
	Pounds	*Pounds*	*Pounds*
January	1.59	1.48	1.25
February	1.57	1.46	
March	1.52	1.49	
April	1.51	1.56	
May	1.40	1.48	
June	1.26	1.37	
July	1.35	1.29	
August	1.27	1.11	
September	1.51	1.18	
October	1.57	1.18	
November	1.62	1.22-	
December	1.59	1.20	
Average	1.48	1.34	

[1] Pounds of concentrate ration equal in value to 1 pound of milk.

Hot, dry weather last summer and widespread early frosts in the Midwest last fall caused a much larger acreage of corn to be cut for silage last year. However, despite a 20 percent increase in silage acreage, sharply lower yields pulled corn silage output down around 1 percent to 111 million tons—of which perhaps half is fed to dairy cattle. The nutritional value of the early-cut silage was probably reduced by the early frosts since much corn was not mature enough for quality silage.

Prospects For 1975 Feed Crops

The removal of all acreage restrictions on feed grains and wheat has been continued for 1975. On January 1, farmers planned to plant about 124 million acres to feed grains in 1975, up only about 1 percent from 1974; corn acreage was expected to drop slightly. Farmers were planning to up soybean acreage around 8 percent to almost 58 million acres. Acreages actually planted may change from these intentions because of weather, economic conditions, supplies and prices of inputs, and crop prices between now and actual spring planting.

Given average planting and growing conditions next year, corn yields may fall within a range of 87 to 97 bushels per acre. This range could produce a record corn crop and total feed grain production could bounce back 25 to 40 percent above 1974's 165 million tons. With these production levels, grain prices would decline further from the record highs in 1974. Foreign demand for U.S. feed grains could remain strong in 1975/76.

However, should we have as unfavorable weather in 1975 as in 1974, feed prices would show unusual

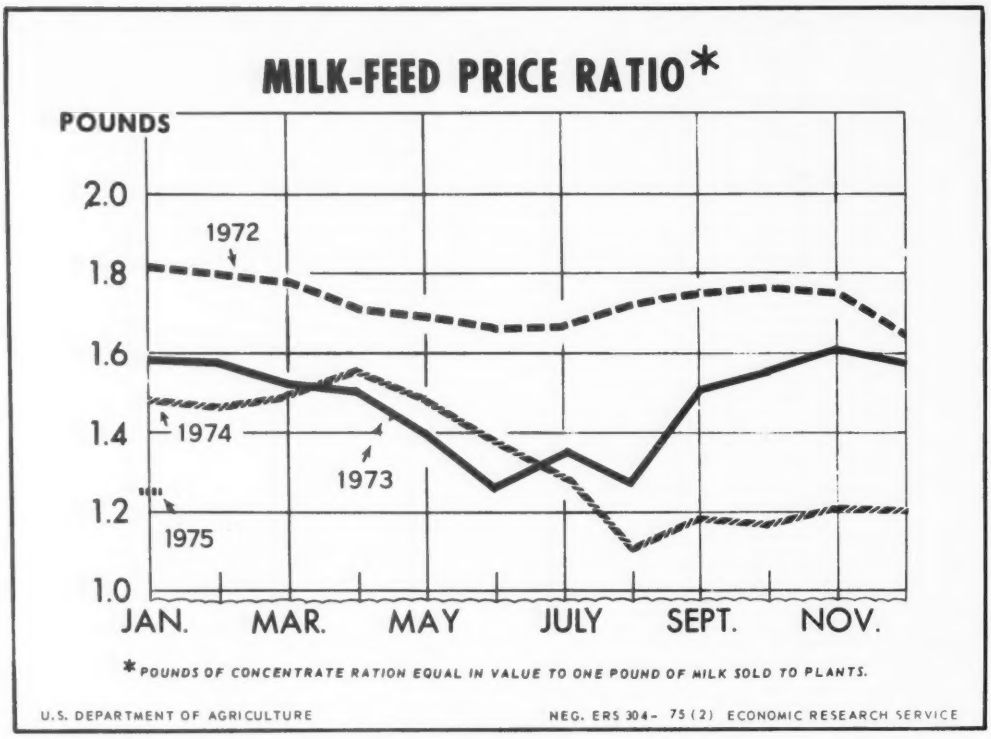

Figure 8

strength right through the 1975/76 season. Projected carryover of grains by next September will likely be down to minimum pipeline levels.

PRICES AND INCOME

Price Supports Upped

USDA raised the support price for manufacturing milk to $7.24 per 100 pounds effective January 4, up 10 percent from the previous $6.57 level. In announcing the support price increase, Secretary Butz cited declining farm milk prices during December and expected further drops in milk prices while costs remained at high levels. The new support price, at 80 percent of the December parity equivalent price, will remain in effect during the rest of the 1974/75 marketing year and also through the next marketing year which ends March 31, 1976.

In order to carry out the new support level for milk, the support purchase price for Cheddar cheese was raised 6.5 cents to 77.25 cents per pound. Similarly, support purchase prices were raised 7.5 cents for butter to 69.5 cents per pound at New York and 4 cents for nonfat dry milk to 60.6 cents per pound. The new support purchase prices apply to dairy products produced on or after January 4, 1975.

USDA took action effective January 24 to bring minimum Class I prices in Federal order markets in line with the price support action. As a result of the public hearing held on January 20, Class I prices in all Federal orders for February and March will be based on the Minnesota-Wisconsin manufacturing milk price of a month earlier, rather than 2 months earlier as has been the case. This decision will allow the January increase in manufacturing milk prices to be reflected in February Class I prices rather than in March as would have occurred otherwise. Similarly, the March Class I price will be based on the February Minnesota-Wisconsin price rather than January's. Starting in April, Class I prices will again be determined by Minnesota-Wisconsin prices in the second preceding month.

Farm Milk Prices a Little Stronger

After dropping in December, farm prices of all milk rose slightly in January in response to the increased support price. Farmers averaged $8.29 per 100 pounds of milk in January, up from $8.23 in December, but 60 cents below year-earlier levels. The differences

Milk prices received by farmers

Month	All sold to plants			Manufacturing grade		
	1973	1974	1975	1973	1974	1975
	Dollars per 100 pounds					
January	6.56	8.89	8.29	5.52	8.09	6.93
February	6.60	8.92		5.52	8.14	
March	6.54	8.94		5.57	8.11	
April	6.43	8.85		5.59	7.79	
May	6.40	8.25		5.60	6.93	
June	6.40	7.65		5.61	6.42	
July	6.57	7.57		5.72	6.32	
August	7.19	7.65		6.29	6.47	
September	7.87	8.00		6.93	6.79	
October	8.32	8.26		7.45	7.04	
November	8.66	8.44		7.76	7.02	
December	8.80	8.23		8.00	6.74	
Average	7.14	8.30		6.20	7.16	

between the price of milk eligible for fluid use (Grade A milk) and that of manufacturing grade milk has widened considerably during the last year. In January, this difference was about $1.70, up from only about $1.00 a year earlier. During the 1968-73 period, Grade A milk prices exceeded manufacturing prices by an average $1.42 per 100 pounds in January.

Manufacturing milk prices averaged $6.93 in January, up 19 cents from December, but down $1.16 from January 1974. December manufacturing milk prices had been pulled down by drops in wholesale dairy product prices. Farm prices for manufaacturing milk in January did not fully reflect the higher support price. Wholesale dairy product prices in most cases did not increase until almost mid-January.

Adjusted to the annual average fat test, manufacturing milk prices in January averaged 41 cents below the $7.24 support level. However, manufacturing milk prices will likely move closer to the new support level in coming months.

In December, butter-powder plants paid about a dime more for milk than did American cheese plants. During the last half of 1974, the advantage swung back and forth but the difference in pay prices was never very large. With wholesale dairy product prices generally at support levels, butter-powder and cheese plants will remain fairly competitive for milk in coming months.

Because of the temporary change in pricing provisions in Federal order markets, minimum Class I prices averaged $8.90 per 100 pounds in February, up 4 cents from December. Without the changes, they would have dropped 35 cents to $8.51. A small increase may be forthcoming in March. Class I prices in April will be the same as those in March as the temporary change in provisions expire and Class I prices are again based on the Minnesota-Wisconsin price for the second preceding month.

In October, over-order payments on Class I milk would raise the Class I price an estimated $1.05 per 100 pounds above the minimum in the 54 Federal order markets reporting such payments. The difference for these same markets averaged 45 cents, 57 cents, 88 cents, and $1.06 during June through September, respectively.

Farm milk prices are expected to remain fairly stable in coming months. With wholesale dairy product prices expected to hold near support purchase prices, the seasonal drop in farm milk prices this spring will likely be less than normal and considerably less than a year earlier.

In 1974, farmers' milk prices averaged $8.30 per 100 pounds, up 16 percent from 1973. Manufacturing prices averaged $7.16 last year.

Dairying Grosses $9.4 Billion

Cash receipts from milk and cream marketings are estimated at $9.4 billion in 1974, up about 16 percent from 1973's $8.1 billion. Milk prices were higher, while marketings held about steady. On the other hand, feed and other production costs rose about a fifth.

Gross income from dairying showed the strongest gains from year-earlier levels during early 1974 when rises in cash receipts about equaled the rises in feed costs and were somewhat greater than the increases in all production costs. The income picture deteriorated in the second half of 1974 with gross dairy income in November and December running below a year earlier. Many dairy farmers reported being caught in a severe cost-price squeeze. For many dairymen, especially those purchasing feed, their cash flow position was very unfavorable.

During October-December cash receipts were down about 2 percent from the same period a year ago. Meanwhile, feed and other production costs continued to increase almost a fifth.

Wholesale Prices Near Support

Wholesale prices of butter and American cheese are currently close to support purchase levels, but nonfat dry milk remains a little below. Prices of butter and cheese fell in late December, but moved upward in early January in response to the increase in support purchase prices. In mid-February, the Chicago butter price was at the support purchase price of 68.1 cents per pound and 40-pound blocks of American cheese at Wisconsin assembly points were quoted at about 77 cents per pound. Wholesale Swiss cheese prices (Grade A blocks, Wisconsin assembly points) were about $1.02 per pound in mid-February, after increasing about 4 cents in early January.

Since the new support purchase prices apply to products made on or after January 4, wholesale prices of nonfat dry milk have not reflected the full amount of the support price rise. Because of large inventories held by manufacturers, nonfat dry milk

(high heat, Central States production area) in mid-February was selling between 57 and 60.8 cents per pound, averaging 58.9 cents. Much of the nonfat dry milk selling at the lower end of the price range was produced before January 4. Wholesale prices of nonfat dry milk should rise closer to support purchase levels in coming months.

Wholesale ice cream prices rose every month during 1974, but evaporated milk prices averaged a steady $11.93 per case after May. Edible whey powder prices have weakened since October. Prices in mid-February were mostly around 8 cents per pound in the Central States production area, down about 7 cents from October and 8 cents from a year ago.

The wholesale price index for dairy products as reported by the Bureau of Labor Statistics (BLS) stood at 146.7 in December, just barely below November but up 3 percent from year-earlier levels. For all of 1974, the wholesale dairy price index averaged 12 percent over the year before with the largest jumps coming early in the year.

High stocks and seasonally rising production will likely hold down wholesale dairy product prices in coming months. Some strength may be seen, however, if commerical stocks are sharply reduced by sales to the government under the price support program.

Retail Prices Rise Slowly

Retail dairy prices rose seasonally in late 1974 following month-to-month declines last summer. The BLS index of retail dairy prices stood at 155.3 (1967=100) in December, up 3 percent from the August low and 7 percent above December 1973. During the last half of 1974, retail dairy prices rose only 1 percent, compared with 6 percent rises for all food and for all items in the Consumer Price Index (figure 9).

For all of 1974, retail prices of dairy products averaged almost 19 percent above year-earlier levels, while all food prices averaged 14 percent higher (table 5). However, the largest jumps in dairy prices came early in the year, peaking at 25 percent above a year earlier in May, before slackening during the rest of the year to 7 percent by December.

Fluid milk prices rose about 2 cents per half-gallon during the last quarter of 1974, but were still about a penny under the May high. December retail prices were about 4 cents per half-gallon above a year earlier. Retail prices of ice cream rose every month during 1974 with December prices up almost 20 cents per half-gallon from a year ago. Rising sugar prices accounted for a large portion of this increase. The price of evaporated milk was also up sharply, averaging more than a fourth higher than in 1973.

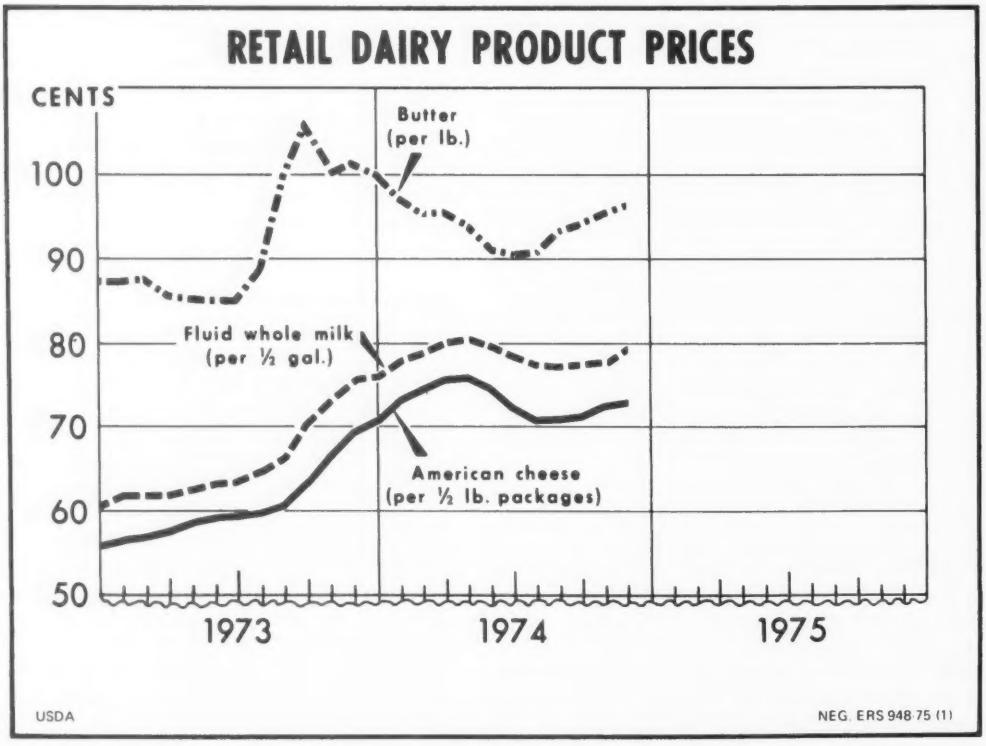

Figure 9

Table 5.--Factors influencing and indicative of the demand for milk and dairy products, United States, 1950-74 1/

Year	Total population July 1 (including Armed Forces overseas)	Total civilian employment	Per capita disposable income		Civilian per capita disappearance				
			Actual	Deflated by consumer price index	Milk equivalent		Milk solids		Margarine
					Fat solids basis	Calcium content basis	Milk-fat	Solids-not fat	
	Million	Million	Dollars	Dollars	Pounds	Pounds	Pounds	Pounds	Pounds
1950	151.7	58.9	1,364	1,892	740	507	29.3	43.6	6.1
1955	165.3	62.2	1,666	2,077	706	525	27.2	44.5	8.2
1960	180.7	65.8	1,937	2,184	653	512	24.5	43.4	9.4
1965	194.3	71.1	2,436	2,578	620	503	22.9	42.6	9.9
1966	196.6	72.9	2,604	2,679	604	503	22.3	42.4	10.5
1967	198.7	74.4	2,749	2,749	581	494	21.4	41.6	10.5
1968	200.7	75.9	2,945	2,826	577	497	21.2	41.8	10.8
1969	202.7	77.9	3,130	2,851	569	494	20.9	41.7	10.8
1970	204.9	78.6	3,376	2,903	561	486	20.6	41.1	11.0
1971	207.0	79.1	3,603	2,970	558	490	20.4	41.2	11.1
1972	208.8	81.7	3,816	3,045	561	490	20.6	40.5	11.3
1973 2/	210.4	84.4	4,195	3,152	554	492	20.4	42.2	11.3
1974 2/	211.9	85.9	4,623	3,130	543	492	19.8	40.3	11.6

Year	Average retail prices, BLS index, 1967=100								
	Consumer price	All foods	Dairy products	Fluid milk, grocery	Butter	Cheese, American process	Ice cream	Evaporated milk	Margarine, colored
1950	72.1	74.5	72.6	71.9	83.4	65.0	102.9	71.9	100.0
1955	80.2	81.6	80.2	81.1	81.5	72.4	98.5	77.6	93.7
1960	88.7	88.0	88.4	91.1	86.7	76.2	100.7	89.7	88.6
1965	94.5	94.4	90.0	90.3	89.4	85.5	95.4	89.7	97.2
1966	97.2	99.1	95.8	96.1	97.3	95.8	97.6	94.2	99.7
1967	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1968	104.2	103.6	103.3	104.1	100.8	102.1	99.8	102.0	98.6
1969	109.8	108.9	106.7	107.0	102.1	107.7	100.5	105.2	98.3
1970	116.3	114.9	111.8	111.6	104.5	115.6	104.8	111.9	106.0
1971	121.3	118.4	115.3	114.6	105.8	121.0	106.2	118.6	116.0
1972	125.3	123.5	117.1	116.3	105.3	124.7	106.5	120.0	117.6
1973 2/	133.1	141.4	127.9	127.3	110.7	138.5	113.1	134.3	133.4
1974 2/	147.7	161.7	151.9	152.5	114.1	167.9	133.3	172.2	204.9

1/ Includes available data for Alaska and Hawaii beginning 1960.
2/ Preliminary.

Processed American cheese at retail was $1.46 per pound in December, up about 4 cents from the August low and 8 cents from December 1973. However, cheese prices were still about 5 cents per pound below the May high.

Retail dairy product prices

Item	Unit	Dec. 1973	May 1974	Dec. 1974	Year 1974
All dairy products	1967=100	144.9	154.6	155.3	151.9
Butter	c/lb.	101.5	94.1	96.4	94.6
Processed American cheese	c/½-lb.	69.1	75.7	73.0	72.9
Ice Cream	c/½-gal.	99.6	105.2	119.3	107.6
Whole milk: At stores	c/½-gal.	75.3	80.4	79.2	78.4
Evaporated milk	c/can	25.3	28.6	30.4	28.8
Skim milk: At stores	c/qt.	39.4	42.0	42.2	41.2

The change in the price relationship of butter and margarine remains dramatic. Butter prices averaged only about 3 percent higher during 1974 and were 5 cents below year-earlier levels by the end of the year. Meanwhile, retail margarine prices were up an average of 53 percent and the December price was almost 26 cents per pound above December 1973. The price of margarine, as reported by BLS, was 60 percent of the retail butter price in 1974, compared with about 40 percent in both 1972 and 1973. By December 1974, this percentage had risen to more than 70 percent. These percentages do not tell the full story, however, because of the wide range in margarine prices. In many areas, the higher-priced margarines sold for about the same as or more than butter. Even though margarine prices may weaken slightly in early 1975 due to reduced soybean oil prices, it is unlikely that butter and margarine will revert to their former price relationship, at least until the impact of the 1975 soybean crop is felt.

Retail dairy prices may rise slowly in early 1975 but the increase will probably be considerably more moderate than the year-earlier rises. The increased support level will likely not have a major impact on retail prices since wholesale prices of butter and cheese had already reached the new support levels by last fall and the late December wholesale price drops did not have a chance to be reflected at the retail level. For all of 1975, retail dairy prices will likely rise considerably less than 1974's increase of nearly a fifth, perhaps more nearly in line with the 4½ percent annual rise of earlier years.

UTILIZATION

Butter Production Jumps; Cheese Weakens

Butter production continues to show strong gains early this year. Weekly production estimates indicate that January and early February butter output was running a fourth above a year ago, following an 18 percent gain in the fourth quarter of 1974. Strong butter sales, coupled with lower cheese output, have brought forth the increase in butter production.

Output of butter for all of 1974 totaled 952 million pounds, up 4 percent from 1973, but still the second lowest annual output since 1920 (table 6). Butter production was down early last year, but posted strong gains in the second half as butter-powder manufacturers became more competitive pricewise for available milk supplies.

Production of American cheese has shown an inverse pattern to that of butter. Cheese output was up sharply early in 1974, but slipped below 1973 levels by the end of last year. Production of American cheese was a record high 1.8 billion pounds in 1974, up about 10 percent from the previous year.

Weekly estimates place January and early February American cheese production down about a sixth from the year before, although output is still well above levels of 2 years ago. Slow sales and high commercial stocks have helped to slow American cheese production.

When making these comparisons with a year ago, it should be kept in mind that American cheese production was at record highs and butter output was at record lows during early 1974.

Production of other-than-American cheese varieties totaled around 1.1 billion pounds in 1974, up over 5 percent from 1973. Swiss cheese production showed strong gains from a year earlier, especially during the second half of the year. While Italian cheese output was well above year-earlier levels, the increase was not as great as in recent years. Total cheese production (excluding cottage cheese) reached a record 2.9 billion pounds last year, up 8 percent from 1973.

Production of nonfat dry milk rose 10 percent last year, the first increase since 1967. However, the 1.0 billion pounds produced in 1974 was still the second lowest since 1952. By the fourth quarter, production was up a fifth, reflecting the increase in butter output.

Creamed cottage cheese output was below year-earlier levels every month in 1974 except December and was down 10 percent for the year. Lowfat cottage cheese production reversed its upward trend and was 5 percent below the previous year. Canned milk continued its long-time decline, falling another 10 percent. Ice cream and ice milk production increased slightly in 1974, but sherbet and mellorine declined.

Last year, about 61½ billion pounds of milk went into manufactured products, up about 2½ billion pounds from 1973. Reduced use of fluid milk products caused more milk to move into manufactured products. Butter and cheese took more milk with less going into canned milk and cottage cheese. Although slightly more milk was used in frozen desserts, less fat came from domestic sources with the difference being made up by butteroil imported in late 1973 and carried into 1974.

Table 6.--Production of selected manufactured dairy products, 1972-74

Item	1972	1973	1974 1/	Change from year earlier	
				1973	1974
	Million pounds			Percent	
Butter	1,101.9	918.6	952.1	-16.6	+3.6
Cheese:					
American	1,644.3	1,672.5	1,832.1	+1.7	+9.5
Other	960.3	1,012.8	1,065.8	+5.5	+5.2
Creamed cottage	1,012.7	958.2	861.8	-5.4	-10.1
Canned milk	1,183.3	1,102.2	987.3	-6.9	-10.4
Dry whole milk	75.2	78.0	70.6	+3.7	-9.5
Ice cream (Mil. gal.)	767.8	773.7	783.2	+.8	+1.2
Milk equivalent 2/	62,232	58,679	61,398	-5.7	+4.6
Nonfat dry milk	1,223.5	916.9	1,005.6	-25.1	+9.7

1/ Preliminary. 2/ Total all manufactured products.

Production of manufactured dairy products may be up slightly this year. Butter production may increase a little from 1974 levels. Although cheese output will likely increase, the gain may not be as large as in recent years. Canned milk production will likely continue its long-term decline while frozen desserts may show a slight increase.

Wisconsin out-of-state milk shipments

Month	1973		1974	
	Loads	Volume	Loads	Volume
	Number	*Thousand pounds*	*Number*	*Thousand pounds*
January	700	32,900	640	30,080
February	414	19,458	212	9,964
March	267	12,549	58	2,726
April	148	6,956	18	846
May	38	1,786	2	94
June	12	564	15	705
July	57	2,679	34	1,598
August	191	8,977	90	4,230
September	792	37,224	352	16,544
October	600	28,200	212	9,964
November	855	40,185	457	21,479
December	514	24,158	298	14,006
Total	4,588	215,636	2,388	112,236

Dairy Sales Up Slightly

Continued strong butter sales and a slight improvement in fluid sales combined to hold total dairy sales slightly above a year ago during October-December 1974. Commercial disappearance of American cheese was down about 5 percent during the fourth quarter, but offsetting was the 12 percent rise in butter sales.

For all of 1974, commercial disappearance of milk in all dairy products (milk equivalent, fat solids basis) totaled 113.1 billion pounds, up a little from 1973 (table 7). Strong second half sales pulled 1974 commercial disappearance of butter up 7½ percent from the year before, indicating that many consumers still prefer butter if the price is favorable (table 8). Although up 4½ percent in 1974, cheese sales closed out the year on a weak note. Large supplies of other high-protein foods are giving cheese stiff competition. Retail meat prices have eased downward in recent months, with hamburger prices in December down 13 percent from a year earlier.

Use of nonfat dry milk was down sharply last year due to greater use of substitutes, lower cottage cheese production, less fortification of fluid products with additional solids, and some likely falloff in pastry and bakery product use. Users have been reducing

Table 7.--Commercial disappearance: Total milk, annual and by quarters, 1972-74 1/

Item	1972	1973					1974 2/				
		By quarters				Annual	By quarters				Annual
		1st	2nd	3rd	4th		1st	2nd	3rd	4th	
	-Billion pounds-										
Production	119.9	28.6	31.8	28.4	26.6	115.4	28.0	31.5	29.0	26.9	115.4
Farm use	3.5	.9	.8	.8	.8	3.3	.8	.8	.8	.8	3.1
Marketings	116.4	27.8	31.0	27.6	25.8	112.1	27.2	30.8	28.2	26.1	112.3
Beginning commercial stocks	3.6	3.5	3.2	4.8	4.5	3.5	4.7	5.3	7.8	7.2	4.7
Imports	1.7	.4	.4	.5	2.5	3.9	1.4	.4	.4	.6	2.9
Total supply	121.6	31.7	34.6	32.9	32.8	119.4	33.4	36.5	36.4	33.9	119.9
Ending commercial stocks	3.5	3.2	4.8	4.5	4.7	4.7	5.3	7.8	7.2	5.6	5.6
Net removals	5.3	1.6	.5	.1	3/	2.2	.1	.5	.5	.2	1.3
Commercial disappearance Actual	112.8	26.9	29.3	28.3	28.1	112.5	28.0	28.2	28.7	28.2	113.1
Percent change 4/	5/+3.2	5/-.5	+3.3	-1.1	-1.5	5/+.1	+4.1	-3.7	+1.5	+.4	+.5

1/ Milk equivalent, fat solids basis. Totals may not add due to rounding. 2/ Preliminary. 3/ Less than 50 million pounds. 4/ From year earlier. 5/ On a daily average basis.

Table 8.--Commercial disappearance: Selected dairy products, United States, annual 1965-73, by quarters, 1973-74

Year and quarter	Butter, creamery 1/	Cheese		Nonfat dry milk	Canned milk	Frozen products 3/
		American 2/	Other			
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. gal.
1965	1,095.8	1,124.4	665.2	942.1	1,841.7	1,033.4
1966	1,086.0	1,207.8	706.2	1,156.8	1,776.8	1,038.7
1967	973.9	1,175.9	738.2	1,012.2	1,571.5	1,040.2
1968	976.0	1,213.3	803.0	1,058.0	1,496.8	1,082.3
1969	921.9	1,281.0	861.6	1,042.1	1,376.1	1,092.2
1970	898.2	1,398.0	909.1	983.2	1,213.8	1,097.3
1971	847.1	1,454.8	987.0	981.8	1,186.9	1,102.4
1972	885.4	1,595.7	1,127.8	919.2	1,102.6	1,108.6
1973	855.6	1,677.1	1,210.2	1,110.1	1,056.7	1,118.7
1973-1st	194.5	412.4	287.3	248.3	280.2	243.6
2nd	224.9	442.2	306.4	314.1	234.0	312.3
3rd	188.1	405.8	284.4	356.0	277.6	331.4
4th	248.1	416.7	332.1	191.7	264.9	231.3
1974-1st	208.1	508.9	300.7	271.6	258.5	249.1
2nd	208.7	426.6	310.0	217.1	214.3	311.1
3rd	225.9	423.2	315.5	166.1	217.1	331.2
4th	277.4	395.1	337.1	143.5	261.3	236.9
	1973-74 percent change					
	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
1st	+7.0	+23.4	+4.7	+9.4	-7.7	+2.3
2nd	-7.2	-3.5	+1.2	-30.9	-8.4	-.4
3rd	+20.1	+4.3	+10.9	-53.3	-21.8	-.1
4th	+11.8	-5.2	+1.5	-25.1	-1.4	+2.4

1/ Imports include butter equivalent of butteroil. 2/ Imports include Colby cheese; stocks do not include processed cheese. 3/ Excludes Mellorine.

Changes in dairy sales

Item	From previous years	
	1973	1974
	Percent	*Percent*
Manufactured products:		
American cheese	+5.1	+4.6
Other cheese	+7.3	+4.4
Creamed cottage cheese	-5.4	-10.1
Butter	-3.4	+7.5
Ice cream	+.8	+1.2
Ice milk	+.3	+1.0
Canned milk	-4.2	-10.0
Nonfat dry milk	+20.8	-28.1
Fluid products:		
Whole milk	-3.1	-6.2
Skim and lowfat milk	+8.5	+6.6
Milk and cream mixtures	-1.7	-4.6
Cream items	+3.3	+9.0
Total fluid products	-.4	-2.6

inventories which were at high levels early in 1974. Commercial disappearance of just under 800 million pounds was down more than a fourth from 1973 levels (table 9). Frozen dessert sales increased slightly but cottage cheese sales were about 10 percent lower than a year earlier. Disappearance of canned milk continued its long downward trend.

Fluid milk sales closed out 1974 slightly above year-earlier levels, helped along by slower seasonal rises in retail prices this year and sharp increases in prices of competing beverages. Retail soft drink prices were up 40 percent in the past year.

Fluid milk product sales in major urban markets were down some 2½ percent in 1974. Sales dropped 5 to 6 percent early last year, but rallied by year's end. Whole milk sales were down about 6 percent in 1974. Although sales of lowfat and skim items were up about 6½ percent, this was considerably below the gains of recent years. Also, lowfat and skim milk fortified with extra solids showed a 9 percent sales drop last year. Processors cut back because of the increased cost of nonfat dry milk which is primarily used in fortifying. Fortified milk sales had shown rapid growth for a number of years, moving from less than 3 percent of total fluid sales in 1960 to a peak of over 15 percent by 1972. Cream sales rose slightly for the third successive year, following a long-term downtrend.

Sales Prospects for 1975

Commercial disappearance of dairy products this year may be close to 1974 levels. Retail dairy prices in the first half of 1975 are expected to rise more slowly than a year earlier and more slowly than the average for other foods. However, general economic conditions could have a serious impact on dairy sales. Declining consumer purchasing power, high unemployment rates, and continued inflationary pressures may limit sales, especially of fluid milk and cheese.

Disappearance of butter may continue showing gains from a year ago, at least through the first half of 1975. Even if recent declines in soybean oil prices are reflected in retail margarine prices, butter will still be in a relatively favorable price position.

Sales of American cheese might trail the sharply increased levels of a year earlier during the first quarter of 1975. Cheese sales will have stiff competition from large supplies of other high-protein foods, especially beef. For all of 1975, disappearance of American cheese will likely continue its upward trend but the increase may well be less than in recent years. Sales of other-than-American varieties will likely increase also, although sales of these varieties may be limited to a greater degree by general economic conditions.

Commercial disappearance of nonfat dry milk could well remain below year-earlier levels early in 1975. The rate of decline may slacken somewhat, but nonfat dry milk sales are expected to remain weak.

Fluid milk sales may show some increases over the sharply depressed levels of early 1974. The trends of declining whole milk sales and increasing sales of lowfat items will likely continue.

Per Capita Consumption Drops

Per capita civilian consumption of milk in all dairy products totaled about 543 pounds in 1974, down about 2 percent from 1973's 554 pounds, and the sharpest drop since 1967. However, on a commercial basis, per capita sales fell only slightly in 1974.

Last year, the civilian disappearance of milk came to almost 114 billion pounds, down from around 115 billion pounds in 1973 (table 10). Almost all of the drop came as a result of smaller government donations, especially of butter. With low government stocks at the start of 1974, USDA had smaller supplies available for donation during the year. Also, the continued shift of needy families from the direct distribution program to the food stamp program reduced that outlet for USDA donations. The amount of milk consumed on farms where produced continued to decline.

Per capita civilian consumption

Item	1972	1973	1974	1973-74 change
	Pounds	*Pounds*	*Pounds*	*Percent*
Products:				
Butter	4.9	4.8	4.5	-6.2
Cheese	13.2	13.7	14.5	+5.8
Cottage cheese	5.4	5.2	4.7	-9.6
Ice cream	17.4	17.5	17.5	0
Ice milk	7.7	7.7	7.8	+1.3
Nonfat dry milk	4.6	6.0	5.3	-11.7
Canned milk	5.1	4.9	4.2	-14.3
Fluid milk:				
Whole	224	215	201	-6.5
Lowfat and skim	65.9	74.0	78.1	+5.5
Cream and mixtures	5.6	5.6	5.6	0
Milkfat	20.6	20.4	19.8	-2.9
Milk solids-not-fat	40.5	42.2	40.3	-4.5

Table 9.--Dairy products: Supply and utilization, 1965-74

Year	Supply				Utilization						
						Domestic use					
						Military		Civilian			
	Beginning stocks	Production	Imports	Total supply	Exports and shipments 1/	USDA donations	Commercial sources	USDA donations	Commercial sources	Total use	Ending stocks
	Million pounds										
	Butter 2/										
1965	71	1,346	2	1,419	75	19	41	130	1,102	1,367	52
1966	52	1,128	2	1,182	19	---	33	51	1,047	1,150	32
1967	32	1,238	2	1,272	7	---	21	108	968	1,104	168
1968	168	1,175	2	1,345	41	50	22	141	974	1,228	117
1969	117	1,126	2	1,245	27	30	20	166	913	1,156	89
1970	89	1,143	2	1,234	9	30	15	168	893	1,115	119
1971	119	1,147	2	1,268	99	20	12	171	869	1,171	97
1972	97	1,102	2	1,201	54	20	3	159	858	1,094	107
1973 3/	107	919	56	1,082	17	---	9	162	837	1,025	57
1974 3/	57	952	2	1,011	7	---	9	40	906	962	49
	American cheese 4/										
1965	296	1,166	16	1,478	19	3	8	80	1,098	1,208	270
1966	270	1,228	50	1,548	15	---	11	5	1,195	1,226	322
1967	322	1,284	60	1,666	20	---	14	81	1,168	1,283	383
1968	383	1,280	16	1,679	23	4	13	105	1,191	1,336	343
1969	343	1,272	16	1,631	16	1	10	90	1,249	1,366	265
1970	265	1,428	16	1,709	16	---	8	46	1,385	1,455	254
1971	254	1,518	17	1,789	20	---	7	75	1,445	1,547	242
1972	242	1,652	15	1,909	21	---	5	46	1,568	1,640	269
1973 3/	269	1,678	28	1,975	20	---	4	4	1,657	1,685	290
1974 3/	290	1,832	112	2,234	29	---	3	60	1,721	1,813	421
	Nonfat dry milk 5/										
1965	174	1,989	1	2,164	887	6/	8	146	923	2,010	154
1966	154	1,580	3	1,737	410	---	19	127	1,005	1,619	118
1967	118	1,679	1	1,798	434	---	9	108	977	1,541	257
1968	257	1,594	2	1,853	419	---	1	111	1,029	1,575	278
1969	278	1,452	2	1,732	339	---	9	117	1,031	1,510	222
1970	222	1,444	2	1,668	432	---	7	126	953	1,530	138
1971	138	1,418	2	1,558	375	---	5	130	953	1,468	90
1972	90	1,223	2	1,315	305	---	5	107	848	1,270	45
1973 3/	45	917	267	1,229	37	---	1	58	1,055	1,154	75
1974 3/	75	1,005	115	1,195	29	---	1	70	802	905	290

1/ Includes USDA exports under P.L. 480 and AID programs as well as commercial exports. For breakdown see DS-328, November 1969, page 26. 2/ Production and commercial use include farm butter. 3/ Preliminary. 4/ Beginning December 1967, includes process cheese held by USDA. 5/ Total use includes quantities used for animal feed. 6/ Less than 500,000 pounds.

Table 10.--Milk and dairy products utilization, United States, 1968-74

Year and item	Foreign use			Domestic use								
				Military			Civilian			Military and Civilian		
	Exports	Shipments	Total	Purchases and CCC transfers	Donations 1/	Total	Commercial and farm use 2/	Donations 3/	Total	Excluding donations	Donations	Total
	Million pounds											
Milk 4/												
1968	1,185	586	1,771	2,186	1,109	3,295	109,549	4,114	113,663	111,735	5,223	116,958
1969	921	498	1,419	2,051	645	2,696	108,687	4,545	113,232	110,738	5,190	115,928
1970	438	552	990	1,788	631	2,419	108,986	4,187	113,173	110,774	4,818	115,592
1971	2,458	568	3,026	1,608	423	2,031	109,350	4,526	113,876	110,958	4,949	115,907
1972	1,470	677	2,147	1,258	413	1,671	111,839	3,906	115,745	113,097	4,319	117,416
1973	654	638	1,292	1,257	---	1,257	111,867	3,521	115,388	113,124	3,521	116,645
1974 5/	578	569	1,147	1,137	---	1,137	112,348	1,491	113,839	113,485	1,491	114,976
Butter												
1968	33	8	41	22	50	72	974	141	1,115	996	191	1,187
1969	21	6	27	20	30	50	913	166	1,079	933	196	1,129
1970	2	7	9	15	30	45	893	168	1,061	908	198	1,106
1971	93	6	99	12	20	32	869	171	1,040	881	191	1,072
1972	44	10	54	3	20	23	852	159	1,017	861	179	1,040
1973	4	13	17	9	---	9	837	162	999	846	162	1,008
1974 5/	1	6	7	9	---	9	906	40	946	915	40	955
American cheese												
1968	4	19	23	13	4	17	1,191	105	1,296	1,204	109	1,313
1969	4	12	16	10	1	11	1,249	90	1,339	1,259	91	1,350
1970	4	12	16	8	---	8	1,385	46	1,431	1,393	46	1,439
1971	4	16	20	7	---	7	1,445	75	1,520	1,452	75	1,527
1972	4	17	21	5	---	5	1,568	46	1,614	1,573	46	1,619
1973	4	16	20	4	---	4	1,657	4	1,661	1,661	4	1,665
1974 5/	5	24	29	3	---	3	1,721	60	1,781	1,724	60	1,784
Other cheese												
1968	3	---	3	7	---	7	787	---	787	794	---	794
1969	3	4	7	6	---	6	843	---	843	849	---	849
1970	3	5	8	6	---	6	886	---	886	892	---	892
1971	3	6	9	5	---	5	966	---	966	971	---	971
1972	3	6	9	5	---	5	1,105	---	1,105	1,110	---	1,110
1973	3	7	10	5	---	5	1,188	---	1,188	1,193	---	1,193
1974 5/	3	4	7	7	---	7	1,250	---	1,250	1,257	---	1,257
Evaporated and condensed milk												
1968	75	66	141	13	---	13	1,722	23	1,745	1,735	23	1,758
1969	89	57	146	25	---	25	1,503	62	1,565	1,528	62	1,590
1970	50	63	113	6	---	6	1,343	89	1,432	1,349	89	1,438
1971	68	56	124	5	---	5	1,298	95	1,393	1,303	95	1,398
1972	55	72	127	5	---	5	1,231	82	1,313	1,236	82	1,318
1973	43	57	100	4	---	4	1,191	58	1,249	1,195	58	1,253
1974 5/	43	58	101	2	---	2	1,075	30	1,105	1,077	30	1,107
Dry whole milk												
1968	17	11	28	4	---	4	46	---	46	50	---	50
1969	14	13	27	---	---	---	44	---	44	44	---	44
1970	13	15	28	---	---	---	43	---	43	43	---	43
1971	24	17	41	---	---	---	32	---	32	32	---	32
1972	38	14	52	---	---	---	24	---	24	24	---	24
1973	49	6	55	---	---	---	21	---	21	21	---	21
1974 5/	45	7	52	---	---	---	17	1	18	17	1	18
Nonfat dry milk												
1968	397	22	419	1	---	1	1,029	111	1,140	1,030	111	1,141
1969	329	10	339	9	---	9	1,031	117	1,148	1,040	117	1,157
1970	416	16	432	7	---	7	953	126	1,079	960	126	1,086
1971	358	17	375	5	---	5	953	130	1,083	958	130	1,088
1972	282	23	305	5	---	5	848	107	955	853	107	960
1973	18	19	37	1	---	1	1,055	58	1,113	1,056	58	1,114
1974 5/	9	20	29	1	---	1	802	70	872	803	70	873

1/ P.L. 690 from CCC stocks.
2/ Includes farm household use of home-produced milk and butter.
3/ Includes donations from CCC stocks under Sections 32, 416, and 709.
4/ Milk equivalent, fat solids basis.
5/ Preliminary.

Per capita cheese consumption rose about 1 pound to 14.5 pounds. American cheese use jumped a half pound to 8.5 pounds per person. Per person use of other cheese varieties rose 5 percent to 6.0 pounds. The drop in USDA donations caused per capita butter consumption to fall from 4.8 pounds a year earlier to 4.5 pounds in 1974, even though commercial sales increased. Among other products, per capita consumption of lowfat fluid milk increased while whole fluid milk, cottage cheese, canned milk, and nonfat dry milk use per person was below 1973 levels. Per capita consumption of frozen desserts remained about the same

Total civilian disappearance of milk in all dairy products this year may be about the same as 1974. Increased stocks at the start of 1975 will about offset expected declines in imports. USDA donations to the school feeding programs could rise as a result of expanded price support purchases. Although per capita use of milk may drop again this year, the decline may be more in line with the 1 percent drops of previous years.

Lactose: Demand Strong, Prices Soar

The sharp increase in sugar prices during recent months has enhanced the demand for lactose as users look to substitutes for sucrose. Some users have been blending lactose with cane and other sugars. Chocolate manufacturers are attempting to use more lactose as a partial substitute for sugar. Increasing quantities are also being used as a base for saccharin-type sweetners for table use. Despite capacity production, demand has often gone unsatisfied. Supplies are short and plants have reported running 7 days a week attempting to meet requirements.

In mid-February, lactose prices delivered in eastern areas were quoted at about 31 cents per pound for trucklots and 33 cents for less-than-trucklots. Prices have risen about 43 percent just since last August.

Production of milk sugar has been increasing in recent years, rising fourfold during the past two decades. Output gained 30 percent in 1973 alone, reaching 113 million pounds produced by some 17 plants. Milk sugar output was likely up again in 1974, probably by a sizable amount with increased demand and larger whey production.

Imports of lactose continued to slacken from the 1970 peak, reaching around 1.3 million pounds last year. Exports, on the other hand, rose 20 percent in 1974 to 8.2 million pounds. World demand for lactose has been heavy with imported edible lactose recently running about 35 cents per pound.

USDA Removals Rise

USDA removals of dairy products under the price support program have been running sharply above year earlier levels since last May. Net removals during April-January 1974/75 totaled about 1.5 billion pounds milk equivalent, compared with 0.6 billion pounds a year ago. However, milk equivalent removals are still below the same period 2 years ago. During calendar year 1974, CCC removals totaled 1.3 billion pounds milk equivalent, down from 2.2 billion pounds in 1973, because of heavy removals of butter during the first quarter of 1973 (table 11).

Deliveries to CCC under the price support program slowed during October-December 1974 before picking up again after the January support price increase. During October-December, CCC sales of butter to the industry for unrestricted use totaled 2.6 million pounds, exceeding deliveries by about 1 million pounds. The situation changed quickly in January after the price support increase with USDA buying about 7 million pounds of butter. CCC purchased only moderate amounts of Amercian cheese during October-November with deliveries rising to 14 million pounds in December and about 12 million pounds in January. USDA has removed sizable amounts of nonfat dry milk in every month since May.

During April-January 1974/75, CCC removed about 36 million pounds of butter from the commercial market under the price support program, up from 23 million pounds a year earlier. Net removals of American cheese totaled 71 million pounds, compared with only 4 million pounds a year ago. Most of the cheese has been processed American cheese; little natural cheese has been purchased so far. CCC bought 294 million pounds of nonfat dry milk compared with 34 million pounds in the April 1973-January 1974 period.

Price support purchases of all dairy products may remain sizable during the first part of 1975. American cheese producers, even with early 1975 output below a year ago, will likely sell considerable amounts to the government in order to reduce their stock levels. With high commercial stocks, expected larger production, and a generally weak market, CCC will continue to purchase sizable quantities of nonfat dry milk.

Even with the rise in price support pruchases, CCC uncommitted inventories of American cheese and butter remain fairly low as these products are moved rather quickly into domestic donation programs, primarily the school lunch program. At the end of January, uncommitted holdings totaled about 13 million pounds of butter and less than 5 million pounds of cheese. However, uncommitted stocks of nonfat dry milk continue to mount as purchases remain heavy and domestic donation outlets have been reduced. These holdings came to 204 million pounds by the end of January; a year ago there were none.

Dairy Stocks Still Large

Commercial stocks of manufactured dairy products totaled 5.6 billion pounds milk equivalent beginning 1975, up almost a billion pounds from last January 1 and a record high for that date (table 12).

Table 11.--Dairy products removed from the commercial market by programs of the United States Department of Agriculture, 1949-75

Year and month	Removals 1/					Solids content of removals			
	Butter 2/	American cheese 3/	Evaporated milk	Nonfat dry milk 4/	Milk equivalent	Milkfat	Solids-not-fat	As a percentage of marketings: Milkfat	As a percentage of marketings: Solids-not-fat
	Million pounds							Percent	
1949	111.7	25.5	---	325.5	2,489	100.4	321.1	2.6	4.6
1950	14.6	83.2	---	327.2	1,126	40.9	339.9	1.1	4.9
1951	5/-27.3	5/-7.1	---	35.3	5/-618	5/-24.0	31.5	5/	.5
1952	16.1	1.7	---	42.3	339	13.8	41.2	.4	.6
1953	355.2	302.5	---	597.1	10,200	387.5	668.9	9.7	8.6
1954	305.1	242.5	---	644.4	8,588	328.2	695.5	8.0	8.7
1955	162.0	141.3	---	534.7	4,685	179.6	558.0	4.3	6.8
1956	164.6	186.5	---	723.4	5,206	197.6	753.0	4.7	8.7
1957	172.5	240.6	---	825.2	5,870	222.1	867.5	5.2	9.8
1958	183.7	75.0	---	886.0	4,658	178.2	875.0	4.2	9.8
1959	123.7	57.2	---	830.3	3,214	123.8	815.6	2.9	9.1
1960	144.8	.3	---	852.8	3,101	122.6	819.8	2.9	8.9
1961	329.4	100.0	---	1,085.6	8,019	305.0	1,075.3	6.9	11.2
1962	402.7	212.9	---	1,386.1	10,724	402.4	1,399.0	9.1	14.3
1963	307.5	110.9	---	1,219.2	7,745	291.8	1,210.1	6.7	12.3
1964	295.7	128.5	---	1,168.8	7,676	287.6	1,166.9	6.5	11.6
1965	241.0	48.6	---	1,098.4	5,665	217.4	1,074.0	5.0	10.8
1966	25.1	10.8	---	365.8	645	26.2	355.5	.6	3.7
1967	265.1	180.5	---	687.0	7,427	276.3	719.1	6.6	7.5
1968	194.8	87.5	54.9	557.8	5,159	193.2	575.4	4.7	6.0
1969	187.9	27.7	107.5	407.2	4,479	171.6	421.5	4.2	4.4
1970	246.4	48.9	48.4	451.6	5,774	221.1	460.7	5.3	4.8
1971	292.2	90.7	111.4	456.2	7/7,268	7/276.5	7/490.1	6.6	5.0
1972	233.7	30.4	97.0	345.0	7/5,345	7/208.4	7/362.0	4.9	3.6
1973 6/	97.7	3.2	53.7	36.8	7/2,185	7/ 84.9	7/ 49.0	2.1	.5
1974 6/									
Jan.	.1	.6	.4	2.5	9	.3	2.7		
Feb.	1.9	.7	.3	5.5	47	1.8	5.6		
Mar.	1.1	.3	1.0	2.3	35	1.3	3.1		
Apr.	---	.3	5.0	.6	14	.5	1.6		
May	8.4	.7	5.2	9.4	191	7.5	10.3		
June	13.1	.9	4.1	29.9	293	11.5	30.3		
July	9.3	4.6	2.1	52.7	246	9.6	52.8		
Aug.	8/	15.2	3.1	46.6	158	5.5	50.1		
Sept.	---	14.4	1.5	32.1	145	5.0	35.6		
Oct.	5/ -.2	3.7	2.4	27.3	37	1.4	27.8		
Nov.	5/-1.0	4.9	1.5	21.9	32	1.0	22.8		
Dec.	5/ -8/	13.7	1.7	34.4	138	4.8	37.6		
Total	32.7	60.3	28.3	265.1	7/1,346	7/50.3	7/280.3	1.2	2.9
1975 6/									
Jan.	6.8	12.0	1.9	38.8	264	9.8	41.4		

1/ Delivery basis, after unrestricted domestic sales.
2/ Includes butter equivalent of anhydrous milkfat, PIK, and purchases under Sec. 709.
3/ Includes purchases under Sec. 709.
4/ Includes PIK certificates issued.
5/ Domestic sales exceeded purchases.
6/ Preliminary.
7/ Includes dry whole milk purchases beginning November, 1971.
8/ Less than 50,000 pounds.

Table 12.--Stocks of dairy products, United States, end of year or month, 1960-74

Year and month	Commercial stocks					Government stocks				Total milk equivalent 3/
	Butter	American cheese	Other cheese	Canned milk	Nonfat dry milk	Butter 1/	American cheese 2/	Nonfat dry milk	Evaporated milk	
	Million pounds									
1960	21.2	291.4	40.6	227.5	103.1	55.6	0.6	279.8	---	5,392
1961	19.5	366.4	53.0	230.7	132.5	205.3	53.5	354.9	---	9,902
1962	31.2	307.1	37.8	145.9	99.0	328.2	79.1	576.0	---	12,166
1963	32.1	282.7	39.1	137.4	81.5	239.0	39.1	404.6	---	9,691
1964	37.1	271.9	42.3	192.2	108.8	33.8	24.4	65.5	---	5,294
1965	27.1	270.2	37.6	140.7	58.2	25.0	.3	96.2	---	4,458
1966	30.2	322.1	50.4	204.5	118.2	2.1	.2	---	---	4,858
1967	18.4	302.3	46.2	196.0	98.7	150.2	80.8	157.6	---	8,252
1968	14.5	291.1	62.3	101.3	79.0	102.9	51.6	198.7	5.6	6,634
1969	25.1	264.4	52.1	106.9	83.9	63.6	1.1	137.8	42.9	5,245
1970	19.7	252.7	70.5	115.7	95.3	99.1	1.3	42.6	.1	5,803
1971	26.2	235.6	65.4	88.6	77.0	70.7	6.1	12.5	.2	5,104
1972	11.1	269.3	62.0	74.7	37.9	96.4	.2	6.9	5.8	5,498
1973	33.5	289.9	67.5	69.2	74.5	22.8	.4	.1	4/	5,207
1973										
Mar.	14.6	244.8	57.5	35.6	39.0	102.6	.2	.2	.1	5,330
June	48.5	307.2	66.6	114.1	102.2	101.7	.3	---	.1	6,902
Sept.	33.4	310.0	71.8	95.6	84.7	60.9	.5	---	---	5,759
Dec.	33.5	289.9	67.5	69.2	74.5	22.8	.4	.1	4/	5,207
1974 5/										
Mar.	50.8	362.1	75.4	62.2	58.8	7.9	.5	---	4/	5,499
June	100.4	486.8	83.1	127.4	183.4	18.1	.4	3.9	.2	8,193
Sept.	82.5	462.0	76.0	153.5	166.6	23.2	1.0	85.0	.3	7,681
Dec.	34.9	419.9	73.1	79.2	131.3	14.3	1.1	158.6	4/	5,886

1/ Includes butter equivalent of butteroil and ghee, 1962-65. 2/ Includes process cheese held by USDA beginning May 1967. 3/ Includes manufactured products for which current monthly series are available (excludes nonfat dry milk). Excludes cream and bulk condensed milk beginning 1968. 4/ Less than 50,000 pounds. 5/ Preliminary.

Uncommitted CCC stocks

Item	January 31	
	1974	1975
	Million pounds	*Million pounds*
Butter (bulk)	0	12.5
Cheddar cheese	0	4.7
Nonfat dry milk	0	204.2

Government stocks were equivalent to 0.3 billion pounds of milk on January 1, the lowest level since 1967. Total stocks of manufactured dairy products came to 5.9 billion pounds milk equivalent, up more than 10 percent from a year earlier.

Most of the rise in commercial dairy stocks was due to the sharply increased level of American cheese holdings. Commercial stocks of American cheese on January 1 were about 420 million pounds, up more than 40 percent from a year earlier, although down almost 70 million pounds from the July high. Stocks remained heavy on February 1. Government stocks of American cheese were about 1 million pounds beginning this year. Stocks of other-than-American varieties of cheese were up about 8 percent from a year ago.

Commercial stocks of butter were drawn down materially in late 1974. Commercial inventories were about 35 million pounds commencing the new year, down from over 100 million pounds in August, and only slightly higher than a year earlier. By February 1, stocks were a little under year-earlier levels. Government butter stocks were 14 million pounds on January 1, down about 9 million pounds from year-earlier levels. Total butter stocks—in both commercial and government hands—started 1975 at their lowest level for that date since 1967.

Manufacturers' stocks of nonfat dry milk remain high. The January 1 total of 131 million pounds was 75 percent above a year ago. Government stocks of nonfat dry milk have been building rapidly as price support purchases continue at substantial levels. Total stocks of nonfat dry milk were 290 million pounds at the start of 1975, the highest since 1964.

Stocks of American cheese and nonfat dry milk are likely to remain relatively high in coming months. With wholesale prices generally at support purchase prices, part of the increased commercial stocks may be shifted into government inventories. Butter stocks are likely to remain close to normal levels.

FOREIGN TRADE AND DAIRY TRENDS

Dairy Imports Slacken

The United States imported dairy products equivalent to about 2.9 billion pounds of milk in 1974, down about a fourth from 1973 levels but considerably above the 1968-72 average of 1.7 billion pounds milk equivalent (table 13). Imports were up during the past 2 years when temporary increases in import quotas were allowed in 1973 for butter, butteroil, cheese, and nonfat dry milk, and in 1974 for Cheddar cheese and nonfat dry milk. Imports slackened to more normal levels after mid-1974. All of the temporary increases in import quotas had expired by June 30, 1974.

Dairy product imports (milk equivalent)

Month	1972	1973	1974
	Million pounds	*Million pounds*	*Million pounds*
January	170	158	372
February	174	102	530
March	110	133	537
April	84	119	161
May	112	140	152
June	89	177	111
July	128	264	138
August	136	124	149
September	142	129	137
October	179	238	178
November	183	1,576	185
December	187	699	282
Total	1,694	3,859	2,932

Almost 100 million pounds of Cheddar cheese were imported early last year under the temporary increase in quotas. Imports of non-quota cheese were up from year-earlier levels during 1974. Increasing amounts of such cheeses have been imported in recent years. Most other dairy products were imported in smaller quantities than in 1973. Not included in milk equivalent totals, nonfat dry milk imports, at 115 million pounds, were less than half the 1973 level. Almost all of this came in the second quarter when a temporary 150 million pound increase in the regular quota was authorized. Casein imports were up slightly in 1974. Dairy product, imports in 1975 will likely be close to the 1968-72 average levels of 1.7 billion pounds milk equivalent.

Because of the increase in USDA's purchase price for American cheese, the "pricebreak" level which controls the quota status of Emmenthaler cheese, Gruyere-process cheese, and the miscellaneous tariff category of "other" cheese was raised to 84 cents per pound (f.o.b. country of origin) effective January 16, up from 78 cents per pound. Imports of these cheeses priced below the pricebreak level are subject to quota, while those priced at or above can enter outside of quota. This action will not greatly affect the imports of these non-quota cheeses since most are priced considerably above this level.

On February 6, the European Community (EC) re-established subsidies for the export of cheese to the

Table 13.--Dairy products: U.S. imports, quota and non-quota, 1972-74 1/

Product	Calendar year quota 2/	1972 imports	December			Annual		
			1973	1974	1974 as a % of 1973	1973	1974	1974 as a % of 1973
	Thou. lb.	Thou. lb.	Thou. lb.	Thou. lb.	Pct.	Thou. lb.	Thou. lb.	Pct.
Cheese, quota types								
American-Cheddar	110,037.5	9,516	1,084	5,550	512	20,010	107,017	535
-Other	6,096.6	5,957	3,026	2,610	86	8,430	5,101	61
Italian-Original loaves	11,500.1	10,802	1,345	1,019	76	10,524	8,982	85
-Other	1,494.0	1,350	426	63	15	1,517	1,185	78
Edam and Gouda-Natural	9,200.4	(10,146)	(1,922)	(1,764)	(92)	(11,596)	(9,371)	(81)
-Processed	3,151.0	( )	( )	( )	( )	( )	( )	( )
Blue Mold	5,017.0	4,434	667	412	62	5,994	5,015	84
Swiss-Emmenthaler, -78¢	20,420.0	3,206	2,908	927	32	24,875	12,565	51
-Gruyere-process, -78¢	11,242.0	2,904	1,768	809	46	9,936	6,191	62
Other-Over 0.5% fat, -78¢	40,730.0	23,680	6,241	6,800	109	52,477	34,452	66
-Under 0.5% fat	8,901.0	8,397	841	106	13	11,965	7,860	66
Total	227,789.6	80,392	20,228	20,060	99	157,324	197,739	126
Cheese, non-quota types								
Swiss-Emmenthaler, 78¢ +		30,366	3,015	3,998	133	24,725	51,297	207
-Gruyere-process, 78¢ +		9,882	302	724	240	5,703	9,113	160
Other, 78¢ +		31,820	4,146	4,352	105	21,241	37,698	177
Pecorino		22,976	1,832	2,282	125	17,215	16,465	96
Roquefort		2,543	303	197	65	2,126	1,439	68
Other 3/		1,510	98	132	135	1,466	1,908	130
Total		99,097	9,696	11,685	121	72,476	117,920	163
Other quota products								
Butter	707.0	714	12,091	91	1	55,574	450	1
Butteroil	1,200.0	1,200	6,738	---	---	23,800	1,200	5
Butterfat mixtures	2,580.0	2,430	562	---	---	2,565	---	---
Ice cream	3,377.3	1,375	---	---	---	---	---	---
Frozen cream	12,540.0	12,600	486	599	123	12,540	12,406	99
Nonfat dry milk	151,807.0	1,602	608	97	16	266,564	115,065	43
Dried buttermilk	496.0	594	170	---	---	270	137	51
Evaporated milk	1,312.0	94	11	5	45	1,209	1,214	100
Condensed milk	4,079.0	2,345	178	95	53	1,419	1,393	98
Chocolate crumb-Regular	17,000.0	9,652	860	520	60	5,624	4,748	84
-Lowfat	4,680.0	3,171	---	---	---	176	---	---
Animal feed with milk solids	16,300.0	6,839	69	687	996	15,793	9,009	57
Non-quota products								
Casein		105,401	11,557	3,266	28	112,828	113,328	100
Lactose		1,540	33	101	306	1,356	1,310	97
Milk equivalent, fat solids basis, total all products	2,292,987	1,694,100	699,218	281,732	40	3,859,423	2,931,969	76

1/ Preliminary. 2/ Includes temporary quota of 100 million pounds for Cheddar cheese and 150 million pounds for nonfat dry milk.
3/ Gjetost, Bryndza, Cammelost and Noekkelost, and Goya.

United States. The renewed subsidies range from 8 percent to 56 percent below the old subsidy rates. In addition EC Cheddar cheese subsidies to the U.S. were eliminated (the EC's share of our quota is small) and prefixing (advance fixing) of EC cheese subsidies was terminated. The Treasury Department has already made a preliminary determination (February 12) that a bounty or grant does exist under the countervailing duty statute in the case of EC cheese subsidies. Following this preliminary finding, Treasury is now reviewing the new EC subsidy program.

Exports Small

Exports of dairy products were equivalent to less than 0.6 billion pounds of milk in 1974, down slightly from the 1973 level. Smaller exports of butter, nonfat dry milk, and dry wholemilk more than offset slight gains for cheese and infant and dietetic food. Exports have been low since late 1972.

Dairy product exports

Product	1973	1974	Change
	Million pounds	*Million pounds*	*Percent*
Butter[1]	3.8	1.2	-68.4
Cheese	7.0	7.6	+8.6
Evaporated milk	41.4	40.7	-1.7
Condensed milk	2.0	2.2	+10.0
Dry whole milk	49.4	44.7	-9.5
Nonfat dry milk	17.7	8.5	-52.0
Milk equivalent[2]	653.7	581.6	-11.0

[1] Includes butter equivalent of butteroil and anhydrous milkfat. [2] Includes some products not shown separately.

With the increase in government purchases and stocks, 50,000 metric tons (110 million pounds) of CCC-owned nonfat dry milk have been programmed for donation under Title II of the Food for Peace Program in the first half of this year. While this level of exports would be much greater than in the past 2 years, it is still considerably below the levels of the early 1970's. Commercial exports of other dairy products will likely remain low in 1975.

Shipments of dairy products to U.S. territories accounted for another 0.6 billion pounds milk equivalent, slightly less than a year ago. Shipments of most products except butter were up during 1974. Dairy products shipped to territories will likely remain small in 1975.

Canada Again Ups Dairy Supports

Effective January 24, the Canadian Department of Agriculture increased the support price for manufacturing milk through higher support purchase prices for butter and nonfat dry milk. Support purchase prices in Canadian currency were boosted 5 cents for both products, bringing butter to 90 cents per pound and nonfat dry milk to 59 cents per pound. The direct subsidy was continued to manufacturing milk producers at $2.56 per 100 pounds and to cream shippers at 73.1 cents per pound of butterfat.

The boost in purchase prices is expected to increase the target support price to $10.02 (Canadian) per 100 pounds, up from $9.41 in effect since last August 1. It is the second increase since the marketing year started last April.

To offset the higher nonfat dry milk price, the consumer subsidy on instantized skim milk powder in consumer-sized packages was raised 5 cents to 29 cents per pound. The 5 cents a quart consumer subsidy on fluid milk in effect since late 1973 is being phased out in gradual steps during late 1974 and early 1975.

Milk production in Canada totaled some 16.6 billion pounds in 1974, down around 1½ percent from the previous year. Down during the first half of 1974, milk production rallied in the third quarter only to drop again by year's end. Early frosts, rising feed and other production costs, lack of alternative employment opportunities, and difficulties in obtaining farm labor were contributing causes. Increased fluid milk sales in 1974 meant less milk was available for manufactured dairy products in Canada. Cheese output continued to expand, while butter production dropped 8 percent. More cheese was consumed, but butter use continued its long-term downtrend. Per capita butter consumption was about 12.7 pounds last year, down about 4 percent. Cheddar cheese use per person was estimated at 9.2 pounds in 1974, up around 10 percent from year-earlier levels.

Canadian milk production is likely to increase in 1975, given favorable weather. Total output may be about 16.9 billion pounds, up 1 percent from 1974 levels. Continued high feed prices, below normal corn silage quality in some areas, and rising input costs may limit growth in milk production. However, Federal and provincial programs designed to increase milk production should be showing results in 1975. Fluid milk sales may increase slightly this year, and cheese production and consumption are likely to be up. Butter production may hold steady, but its relatively favorable price relationship with margarine may prevent any pronounced drop in butter consumption.

Casein Prices High; Demand Weak

Casein prices in the United States have remained fairly stable since last fall, but at relatively high levels. Price quotes for edible grade casein have generally been around 90 cents per pound. Industrial grade casein has been bringing around 70-75 cents per pound. Argentine industrial casein averaged 72 cents per pound in January, the same as last summer but up from 65 cents a year ago.

New Zealand and Australia lowered their asking price on edible casein from $1.15 to 96 cents per pound for upcoming delivery. Increased competition from Europe and generally weak U.S. demand for casein apparently caused the price drop. Production prospects from New Zealand also look fairly good.

Casein usage appears to have shown fairly substantial drops in recent months. Buying activity has been very quiet as users are working off quite large inventories. Strong prices have likely reduced usage, particularly in industrial uses. Generally weak economic conditions may have also caused a cutback in food uses of casein and caseinates.

Total casein and caseinate imports came to 113.3 million pounds in 1974, about the same as in the previous year. However, the total value of casein imports was up appreciably with unit import values rising from 45 cents per pound in 1973 to 57 cents in 1974.

World Milk Production

Milk output in 36 major countries for which data are available was estimated up around 1½ percent in 1974 to around 770 billion pounds. Last year's output represented a growth of about a fifth since the early 1960's.

Production in the European Community (EC) was up about 1 percent last year totaling 214 billion pounds. Output gains slowed appreciably late in 1974. Although production declined in Italy, Ireland, France, and the United Kingdom, production was up in all other EC countries. EC milk cow numbers declined by about 0.4 percent in 1974. A drop in numbers was recorded in Italy, France, and the United Kingdom. West German herd numbers remained about unchanged, while other EC countries expanded their cow numbers.

EC milk price support levels were boosted 5 percent last October to an average $8.10 per 100 pounds, up from $7.34 instituted last April at the start of the 1974/75 marketing year. In addition, the EC Council of Ministers recently approved a two-step increase in the target price for milk in 1975. A 6.4 percent increase on March 3 will be followed by an additional 4.7 percent increase on September 16 this year. The March 3 price boost will push the target price of milk to $8.62 per 100 pounds and the September increase will edge the target price up to $9.03. Support prices for butter and nonfat dry milk will be raised proportionately to support the higher milk price.

New Zealand's milk production is starting to show some growth from year-earlier drought reduced levels with output up about 3 percent since last November. Although a recovery had been expected from 1973/74's low levels, the comeback has been slower than expected as herds have not fully recovered from the drought and wet winter grazing conditions. New Zealand's output in 1974/75 is now expected to be about the same as the previous year. For the second consecutive year, Australia's milk output still trails year-ago levels because of continued effects of flood and drought that shortened supplies last season. Further, the phase-out of government subsidies to dairy producers is restricting output.

Cheese continues to take an increasing proportion of milk production in most countries. Production of cheese in major dairy countries rose an estimated 6 percent in 1974 to about 15.4 billion pounds. Output was up nearly 7 percent in the EC, 8 percent in the United States and some 5 percent in other West European countries. Production in Oceania, however, dropped sharply as both New Zealand and Australia have reduced cheese output in favor of butter/power production. Despite increased production, cheese stocks beginning 1975 were not up appreciably in most European countries because consumption also continued to rise.

Butter production was down nearly 6 percent in the EC last year, although output was up in other West European countries and in the United States. A substantial decline was registered in Australia. World output last year held about steady in the major dairy countries at an estimated 11 billion pounds.

EC butter stocks beginning 1975 totaled 460 million pounds, down 16 percent from a year ago. However, seasonal drops in recent months have been somewhat slower than occurred in the previous year. Butter has benefited from high margarine prices. The British butter market has been very firm because of rising consumption, lower domestic output, and reduced supplies from New Zealand.

World output of nonfat dry milk is estimated to have increased about 2 percent in 1974 to about 7.4 billion pounds. Although nonfat dry milk production has been down slightly from year-earlier levels in Western Europe, a weakening demand has caused a large build-up in stock levels. Consumption of nonfat dry milk has declined, particularly in the EC because of high price levels which resulted in reduced feed use. In early January, EC intervention stocks of skim milk powder totaled about 810 million pounds, almost double year-earlier levels. Nonfat dry milk stocks have also shown sizable gains in the United States, Australia, and New Zealand, although production has also been expanding significantly in these three countries.

The EC Commission has proposed that about 220 million pounds of nonfat dry milk be designated for use in helping victims of natural disasters. The EC reportedly will sell the dry milk to relief organizations for about 24 cents per pound, about half the EC intervention price.

Table 14.--U.S. Dairy Situation at a Glance

Item	Unit or base period	1973		1974						
		Dec.	Year	Jan.	Feb.	Sept.	Oct.	Nov.	Dec.	Year
Production and cow numbers:										
Total milk	Mil. lb.	9,052	115,385	9,287	8,765	9,140	9,125	8,669	9,087	115,416
Milk per cow	Lb.	802	10,114	824	779	815	815	774	810	10,286
Number of milk cows	Thou.	11,293	11,409	11,267	11,249	11,208	11,199	11,207	11,212	11,221
Prices received by farmers:										
All milk, sold to plants, 100 pounds	Dol.	8.80	7.14	8.89	8.92	8.00	8.26	8.44	8.23	8.30
Percentage of parity 1/	Pct.	92	80	92	90	70	71	72	73	81
Manufacturing grade milk, 100 pounds	Dol.	8.00	6.20	8.09	8.14	6.79	7.04	7.02	6.74	7.16
Parity equivalent	Dol.	7.78	7.35	7.96	8.06	8.88	8.96	9.04	9.04	8.52
Fat content	Pct.	3.81	3.65	3.77	3.71	3.66	3.78	3.82	3.82	3.67
Minnesota-Wisconsin (3.5% fat), 100 pounds	Dol.	7.94	6.30	8.10	8.14	6.69	6.82	6.76	6.41	7.06
Milk eligible for fluid market, 100 pounds	Dol.	9.02	7.42	9.12	9.15	8.34	8.59	8.80	8.62	8.64
Price ratios and dairy ration values:										
Milk-feed	Lb.	1.59	1.48	1.48	1.46	1.18	1.18	1.22	1.20	1.34
Manufacturing grade milk-hog	Lb.	.21	.16	.20	.21	.20	.19	.19	.18	.21
Manufacturing grade milk-beef cattle	Lb.	.21	.15	.18	.19	.21	.23	.25	.24	.20
Value of concentrate ration fed milk cows	Dol.	5.60	4.88	6.00	6.12	6.76	7.00	6.90	6.83	6.27
Farm cash receipts from dairy products	Mil. dol.	780	8,071	759	768	701	744	711	746	9,263
Production of factory products:										
Creamery butter	Mil. lb.	69.5	918.6	80.6	69.0	65.4	70.8	68.0	89.6	952.1
American cheese, whole milk	Mil. lb.	141.0	1,672.5	153.1	153.6	123.4	125.1	114.9	125.3	1,832.1
Cheese, other than American	Mil. lb.	92.6	1,012.8	86.9	78.6	87.7	91.5	90.7	93.0	1,065.8
Canned milk, unskimmed	Mil. lb.	88.3	1,102.2	81.6	77.7	65.1	55.8	61.1	75.5	987.3
Dry whole milk	Mil. lb.	5.7	78.0	5.7	6.1	2.9	2.9	2.6	4.0	70.6
Frozen products 2/	Mil. gal.	68.3	1,118.7	75.8	80.0	98.0	88.4	76.3	72.2	1,128.3
Creamed cottage cheese	Mil. lb.	63.4	958.2	70.5	68.9	69.0	70.7	66.4	64.0	861.8
Total whole milk equivalent 3/	Mil. lb.	4,212	57,375	4,719	4,540	4,410	4,330	4,008	4,555	60,265
Nonfat dry milk, human use	Mil. lb.	58.2	916.9	58.4	56.0	64.7	58.3	52.8	80.1	1,005.3
Wholesale prices:										
Butter, 92-score, Chicago, pound	Ct.	72.0	69.8	68.5	64.1	67.7	68.8	68.9	65.3	63.7
Cheese, American (40-pound blocks), f.o.b. Wisconsin assembling points, pound	Ct.	88.2	72.6	89.9	91.1	76.5	78.5	77.8	72.6	79.9
Evaporated milk, case (mid-point of range)	Dol.	10.62	9.63	11.12	11.36	11.93	11.93	11.93	11.93	11.76
Dry whole milk, pound	Ct.	67.3	58.2	69.5	69.7	63.2	65.4	63.9	64.2	66.0
Nonfat dry milk, pound	Ct.	53.1	46.4	54.0	57.8	57.4	57.7	57.0	56.8	58.6
Dairy products and ice cream index (BLS)	1967=100	142.3	131.1	145.1	147.6	144.8	146.4	146.8	146.7	146.4
Retail prices (BLS):										
Milk, fresh, grocery, half-gallon	Ct.	75.3	65.4	75.9	77.6	77.3	77.5	77.6	79.2	78.4
Evaporated milk, 14½-ounce can	Ct.	25.3	22.4	25.8	26.8	30.0	30.1	30.2	30.4	28.8
Cheese, American, processed, sliced, ½-pound package	Ct.	69.1	60.4	70.5	73.1	71.0	71.4	72.9	73.0	72.9
Butter, pound	Ct.	101.5	91.6	100.1	97.1	93.5	94.4	95.9	96.4	94.6
Ice cream, half-gallon	Ct.	99.6	91.0	100.3	100.9	109.9	112.3	114.6	119.8	107.6
Dairy products index	1967=100	144.9	127.9	146.3	149.3	151.1	151.7	152.7	155.3	151.9
All foods index	1967=100	151.3	141.4	153.7	157.6	165.0	166.1	167.8	169.7	161.7
Margarine, colored, pound	Ct.	45.1	37.4	45.9	48.2	63.7	66.4	69.3	70.7	57.4
Stocks, end of month:										
Creamery butter	Mil. lb.	46.4	---	51.4	50.2	105.7	83.1	58.0	49.2	---
Cheese, total 4/	Mil. lb.	357.8	---	366.8	391.7	539.0	512.9	497.3	494.1	---
Canned milk, unskimmed	Mil. lb.	69.2	---	54.5	57.5	153.8	124.1	101.0	79.2	---
Dry whole milk	Mil. lb.	5.4	---	5.9	7.5	10.8	9.7	5.4	6.4	---
Total whole milk equivalent 5/	Mil. lb.	5,207	---	4,636	4,883	7,681	6,900	6,143	5,886	---
Nonfat dry milk	Mil. lb.	74.6	---	58.6	53.7	251.6	252.2	257.9	289.8	---
Commercial disappearance:										
Creamery butter	Mil. lb.	76.5	855.6	77.2	62.9	76.8	93.3	89.3	93.4	918.7
Cheese, American	Mil. lb.	144.8	1,677.1	161.1	162.5	125.4	144.7	126.9	132.1	1,762.4
Cheese, other than American	Mil. lb.	117.2	1,210.2	106.5	96.1	100.9	113.2	108.4	115.5	1,263.3
Canned milk, unskimmed	Mil. lb.	92.9	1,056.7	97.2	74.4	77.7	82.9	82.7	95.7	951.5
Milk in all products	Mil. lb.	8,858	112,514	9,757	8,669	9,298	9,789	9,228	9,162	113,075
Nonfat dry milk	Mil. lb.	42.1	1,110.1	72.3	63.8	50.9	51.4	49.8	42.3	798.3
USDA net removals:										
Butter	Mil. lb.	---	97.7	.1	1.9	---	-.2	-1.0	---	32.7
Cheddar cheese	Mil. lb.	---	3.2	.6	.7	14.4	3.7	4.9	13.7	60.7
Nonfat dry milk	Mil. lb.	5.7	36.8	2.5	5.5	32.1	27.3	21.9	34.4	265.1
Evaporated milk	Mil. lb.	1.6	53.7	.4	.3	1.5	2.4	1.5	1.7	28.3
Total whole milk equivalent	Mil. lb.	4	2,185	9	47	145	37	32	138	1,346
Fluid sales, change from year earlier: 6/										
Whole milk	Pct.	-8.1	-3.1	-8.3	-9.7	-4.2	-2.8	-.5	-1.5	-6.2
Cream and cream mixtures	Pct.	-1.2	+.7	+.6	+.5	+4.9	+2.3	+1.1	+2.1	+1.7
Low-fat and skim milk	Pct.	+6.4	+8.5	+7.3	+5.6	+9.6	+10.9	+8.2	+9.3	+6.6
Total	Pct.	-4.2	-.4	-4.3	-5.7	-.4	+1.0	-.8	+1.5	-2.6

1/ Seasonally adjusted price as percentage of parity price.
2/ Ice cream, ice milk, and sherbet.
3/ Includes manufactured products for which current monthly series are available.
4/ Natural, plus process American cheese held by CCC.
5/ Excludes cream and bulk condensed milk.
6/ Daily average sales in Federal and State Marketing areas.

THE IMPACT OF DAIRY IMPORTS ON THE U.S. DAIRY INDUSTRY

ABSTRACT

Three trade alternatives are examined for the U.S. dairy industry: (1) a continuation of the existing dairy price support program and import quotas, (2) free trade in dairy produets for all countries, and (3) an open U.S. market with no domestic price supports or import quotas for dairy products.

The estimated impact of these policies is shown on: levels of imports into the United States; U.S. milk production, consumption, and prices; net-cash income; and number and size of dairy farms and processing plants.

KEYWORDS: Dairy industry, trade, imports, import restrictions, quotas.

Introduction

Events of the past 2 years have made dairy imports a major issue. Considerable concern has been expressed within the dairy industry about imports and import policy. However, a great deal of uncertainty exists as to what would happen if our import quotas on dairy products were relaxed or eliminated. How far would domestic farm and retail prices fall? Can we compete with other dairy areas of the world? How many dairy farmers and processing plants would be forced out of business? Further study of these questions appeared to be needed.

With this background, the Congress of the United States directed the Secretary of Agriculture ". . .to carry out a comprehensive study to determine the effect of increases, if any, in the level of imports upon domestic dairy producers, handlers, processors, and consumers."[1] The results of this study were reported by USDA to the Congress on January 2, 1975. This article summarizes the findings of the study.

Differences in assumptions and scope of analysis may cause the results of this study to differ from other recent studies of the implications of more liberalized trade for the U.S. dairy industry. This study comprehensively considers dairy but assumes trade in other agricultural products as given and is, therefore, a partial analysis.

U.S. dairy import quotas exist primarily because of the dairy price support program. Without quotas, the price support program as now operated would have to be discontinued. Otherwise the U.S. Government would, to some extent, support world dairy prices. Whether expanded imports of dairy products would be in the best interest of this country is not clear-cut. Numerous tradeoffs in national objectives are involved.

For example: (1) Lowest possible consumer prices in the short-run may require rather harsh adjustments by farmers and processors of dairy products; and (2) Taking advantage of lower consumer prices in the short-run through imports would make us more dependent on foreign supplies and leave us open to the risks and uncertainties associated with the dependability of those supplies.

Summary of Analysis of Three Trade Alternatives

Three trade alternatives were examined for the U.S. dairy industry for the 1975-80 period:

(1) *Continued U.S. policy of import quotas for dairy products at the current Section 22 level.* Section 22 of the Agricultural Adjustment Act, as amended, provides for import quotas on price-supported commodities, including dairy products, to prevent interference with the price support programs. Under this alternative, domestic prices would be determined

[1]The study was made by the Department of Agriculture's Economic Research Service, with assistance from members of USDA's Foreign Agricultural Service and Agricultural Marketing Service. The Agricultural Stabilization and Conservation Service provided partial financial support for the study. Boyd M. Buxton, Agricultural Economist with the Economic Research Service stationed at the University of Minnesota, was Project Leader.

primarily by U.S. milk production and consumption.

(2) *Free trade in dairy products in the United States and abroad.* This assumes all countries would eliminate trade barriers, subsidies, and price support programs and allow a free flow of dairy products among countries with prices moving toward a world price.

(3) *An open U.S. market policy with no dairy import quotas.* This alternative assumes that the United States would eliminate trade barriers while other countries would be free to pursue their own individual dairy policies, including trade restrictions and export subsidies. This would necessitate elimination of the U.S. dairy price support program as it is now operated.

The analysis is based on expected supply and demand conditions and dairy policies in major dairy areas. Inflation rates in the United States and abroad were assumed to be 11, 8, and 6 percent in 1974-76, respectively, and 5 percent per year from 1977 to 1980. The six major dairy-producing regions considered are: the expanded European Community (EC) including both the EC-6[2] and the EC-3[3], the United States, Canada, New Zealand, and Australia. Also, a group of other significant producing or consuming countries was included in the analysis. This group consisted of: Argentina, Brazil, Colombia, Peru, Uruguay, Japan, Austria, Finland, Greece, Norway, Spain, Sweden, and Switzerland.

Specific numbers shown indicate the estimated impact of the three trade alternatives on such items as: levels of imports into the United States; and U.S. milk production, consumption, and prices. Although the numbers are precise, they are intended to illustrate the direction and magnitude of expected changes under each of the three trade alternatives. Many assumptions were needed to arrive at these numbers. This should be kept in mind when analyzing the data and drawing conclusions therefrom.

Continued Section 22 Import Quotas

Under this alternative, import quotas for dairy products at the current Section 22 level would be continued along with the dairy price support program.

Levels of imports that would enter the U.S.-Under current quotas, imports would be 1.7 billion pounds milk equivalent annually through 1980, or about 1.5 percent of U.S. production (table A).

U.S. milk production and consumption-Production would increase about 3 percent from 115.4 billion pounds in 1974 to some 119 billion pounds in 1980 (table B). On the other hand, per capita milk consumption would continue to drop from 543 pounds in 1974 to 523 pounds in 1980.

U.S. milk and dairy product prices-Farm milk prices would be above 85 percent of parity in 1980 reaching $10.39 per 100 pounds, up from 1974's $8.30 average. Consumer prices for selected dairy products would range from 20-28 percent higher in 1980 than in 1974—about 3 percent greater than under the free trade alternative.

Net cash income of U.S. dairy farmers-Dairy income from 1975 to 1980 would equal 1972 income in purchasing power.

Number of U.S. dairy farms and processing plants-More than 181,600, or 47 percent, of the U.S. dairy herds in 1973 would discontinue production by 1980. There would be 20 percent fewer cheese plants and 44 percent fewer butter plants in 1980 than in 1972.

Free World Trade in Dairy Products

This alternative assumes no trade barriers, subsidies, or price support programs in any country.

Levels of imports that would enter the U.S.-Imports would increase from 2.9 billion pounds in 1975 to 5.3 billion pounds in 1980.

U.S. milk production and consumption-U.S. milk production would be 117 billion pounds by 1980, or about 1½ percent larger than in 1974. Consumption would drop from 543 pounds per capita in 1974 to 531 pounds in 1980.

U.S. milk and dairy product prices-Farm prices under free trade would be at 99 percent of the price needed to leave real 1972 net cash income unchanged in 1975 and then decrease to 94 percent by 1980. Consumer prices for selected dairy products would range from 16-22 percent higher in 1980 compared with 1974, or slightly less than under a continued quota policy.

Net cash income of U.S. dairy farmers-Dairy income would range from 72-89 percent of the 1972 net cash income, but would trend toward the lower end of this range by 1980.

Number of U.S. dairy farms and processing plants-By 1980, 4,200 more U.S. dairy farms would discontinue production than under the continued quota alternative. There would be 47 percent fewer butter and 20 percent fewer cheese plants in 1980 than in 1972—a more rapid decline than under a continued quota policy.

Open U.S. Market Policy

This alternative assumes no dairy import quotas or price support program in the United States. Other countries would be free to pursue their own policies.

[2]France, West Germany, Belgium, Luxembourg, Netherlands, and Italy.

[3]Denmark, Ireland, and the United Kingdom.

Table A. Estimated dairy imports in milk equivalents under three trade alternatives, 1975-80

Year	Continued quotas		Free trade		Open U.S. market	
	U.S. imports	Percent of production	U.S. imports	Percent of production	U.S. imports	Percent of production
	Bil. lb.	Pct.	Bil. lb.	Pct.	Bil. lb.	Pct.
1975	1.7	1.5	2.9	2.5	12.2	11.0
1976	1.7	1.5	2.8	2.4	13.4	12.5
1977	1.7	1.4	3.8	3.3	10.5	9.6
1978	1.7	1.4	4.3	3.7	9.2	8.3
1979	1.7	1.4	4.8	4.1	8.0	7.2
1980	1.7	1.4	5.3	4.5	6.7	6.0

Table B. Estimated U.S. milk production, consumption and farm milk prices under three trade alternatives, 1975-80

Year	Continued quotas			Free trade			Open U.S. market		
	Milk production	Civilian consumption 1/	Farm milk price per cwt. 2/	Milk production	Civilian Consumption 1/	Farm milk price per cwt. 2/	Milk production	Civilian consumption 1/	Farm milk price per cwt. 2/
	Bil. lbs.		Dol.	Bil. lbs.		Dol.	Bil. lbs.		Dol.
1975	114.8	113.7	8.90	114.1	114.2	8.77	111.0	120.4	6.94
1976	117.0	114.4	9.39	116.4	114.8	9.04	107.2	116.3	8.26
1977	118.0	116.2	9.43	116.8	117.2	9.02	109.3	116.3	9.00
1978	118.6	116.9	9.73	117.1	118.0	9.25	110.3	116.1	9.61
1979	119.0	117.3	10.05	117.2	118.7	9.54	111.2	115.8	10.22
1980	119.0	117.4	10.39	116.9	118.9	9.72	111.6	115.0	10.90

1/ Production and consumption can be reconciled by adding imports and beginning stocks on the supply side; and exports, fed to calves, ending stocks and military use on the demand side.

2/ All milk wholesale price.

Results would be similar whether or not countervailing duties are levied.

The impact of the open market alternative shown in this report is greatly influenced by the relatively short-run cycle in surpluses expected in the EC-9. Conditions in 1974 suggest growing surpluses which, to a large extent, would be shipped into an open U.S. market. The costs of these surpluses would become burdensome to the EC-9 and policies to reduce them would be implemented causing imports to the United States to decline through 1980 from a 1976 high.

Levels of imports that would enter U.S.-Imports would be 12.2 billion pound milk equivalent in 1975, 13.4 billion pounds in 1976, and 6.7 billion pounds in 1980.

U.S. milk production and consumption-Milk production would be about 4 billion pounds less in 1975 and some 10 billion pounds less in 1976 than what it would have been under the continued quota alternative. Consumption would increase sharply in 1975 and 1976 compared with continued quotas, but would decrease later in the decade to about 513 pounds per capita by 1980.

U.S. milk and dairy product prices-The expected 12 billion pounds of imports to enter an open U.S. market in 1975 would reduce the U.S. all-milk wholesale price to about $6.94 per 100 pounds (about $2.00 less than if quotas were continued). Primarily because EC-9 surpluses are expected to start declining in 1976, prices would start to recover and would be higher in 1978-80 than if quotas were continued. Product prices would be lower in 1975 and 1976 than under a continued quota policy but would be higher by 1980.

Net cash income of U.S. dairy farmers-Dairy farmers would experience a sharp drop in income in 1975 and 1976 but those dairymen remaining would have a net cash income in 1979-80 similar to what would be expected under a continued quota alternative.

Number and size of U.S. dairy farms and processing plants-By 1980, 17,300 more herds would discontinue production than under the continued quota alternative. Most would be smaller herds but all size groups would be affected. There would be 56 percent fewer butter and 26 percent fewer cheese plants in 1980 than in 1972.

The Question of Relaxing Import Quotas

Three key questions in considering the impact of relaxing dairy import quotas include:

1. Are there areas of the world that can produce dairy products at a lower cost than the United States?
2. Is the potential supply from those areas large enough to drive the U.S. market price to the cost of production in these foreign countries, plus transportation and any differences in processing cost, or at least to substantially lower the U.S. price?
3. What would be the potential exports to the United States from countries who could not compete with the U.S. market price but would subsidize exports?

Some main conclusions with respect to these questions are:

1. New Zealand and Australia are the major exporting areas that could profitably ship dairy products to the United States without export subsidies. This is primarily due to the low cost of milk production of their pasture-based dairy industries.

2. The potential increase in supply of dairy products from New Zealand and Australia with higher free trade prices from 1976 to 1980 is estimated at about 12.5 percent. Only about 1.5 billion pounds of this increased production would be reflected in exports, as New Zealand's total domestic consumption will also increase by 1980.

The total increase in milk production in Australia would be slightly less than for New Zealand but exports could increase about 1.9 billion pounds milk equivalent, taking into account their expected increase in consumption.

Most of this increase from New Zealand and Australia would be offset by deficits created by lower free trade prices in the EC-9. Therefore, the potential supply from Oceania is so small relative to total production in all the major supply areas that under free trade, prices would not fall to Oceania's current cost of production plus transportation and any differences in processing costs.

3. No export subsidies would exist under conditions of free trade, so dairy products would not flow from high to low cost areas of production. However, in determining the implications of an open U.S. market, the EC-9 is the dominant factor because of its surplus dairy policies and the volume of those surpluses. These surpluses, which would have to enter world markets, could change dramatically with rather normal variations in production or consumption.

Additional results of the study related to specific issues surrounding the dairy import question are summarized in the following sections.

Dependability of Imported Supplies

Once a policy of expanded imports is adopted, the short-run tendency would be to lower prices and reduce domestic production. This country would then become increasingly dependent upon imports. If, after the U.S. industry had adjusted to a higher level of imports, the level of imports would remain stable, no serious disruption would be expected in the longer run. However, as the degree of dependence grows, the question of reliability of imports would become more crucial. Resources once taken out of dairying cannot be quickly replaced.

Dependability of foreign supplies, in large part, would depend upon policies followed by the major dairy-producing countries as well as policies followed by this country. Lower cost dairy products would be available from New Zealand and Australia, but their potential for expanding milk production is relatively small.

New Zealand and Australia, with large quantities of dairy products to export year-after-year, would be interested in dependable markets. They would ship more dairy products to the United States on a regular basis if this market were assured than if the United States bought only occasionally.

The EC-9 is also an important factor in the question of dependable supplies. Policies and normal variation in milk production due to weather can substantially change the amount of exports from the EC-9. Normal variations in weather plus the fact that surpluses are expensive to the EC-9 in terms of export subsidies, would create a situation where surpluses from the EC-9 would likely not be available year-after-year in stable quantities. The reliability of EC-9 exports of dairy products can be characterized as uncertain and probably quite variable.

Likely Impact Upon Producers

The impact of expanded imports would vary greatly depending upon circumstances. Opening U.S. markets would result in substantial declines in producer incomes, sharply curbing domestic U.S. milk production, and increasing our dependence on imports.

It is likely that those dairy farmers who would be able to survive depressed prices for 2 or 3 years would eventually find returns back at levels about as high, (higher, if imports decline as expected) as those which might exist if quotas were continued.

In the short-run, it is estimated that for every half billion pounds of milk equivalent imported, producer returns would be reduced about 9 cents per 100 pounds.

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LIST OF TABLES

Table	Title	Page
1	Milk production, milk per cow, and milk cows on farms, by months, 1968-74, with comparisons	6
2	Production, price, and income changes by production regions 1974	7
3	Milk: Production by production regions, 1970-74, with comparisons	8
4	Milk production and factors affecting supply, United States, selected years, 1950-75	10
5	Factors influencing and indicative of the demand for milk and dairy products, United States, 1950-74	15
6	Production of selected manufactured dairy products, 1972-74	17
7	Commercial disappearance: Total milk, annual and by quarters, 1972-74	18
8	Commercial disappearance: Selected dairy products, United States, annual 1965-73, by quarters, 1973-74	19
9	Dairy products: Supply and utilization, 1965-74	21
10	Milk and dairy products utilization, United States, 1968-74	22
11	Dairy products removed from the commercial market by programs of the U.S. Department of Agriculture, 1949-75	24
12	Stocks of dairy products, United States, end of year or month, 1960-74	25
13	Dairy products: U.S. imports, quota and non-quota, 1972-74	27
14	U.S. dairy situation at a glance	30

SPECIAL ARTICLE TABLES

A	Estimated dairy imports in milk equivalents under three trade alternatives, 1975-80	33
B	Estimated U.S. milk production, consumption and farm milk prices under three trade alternatives, 1975-80	33